

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on the \$69,470,000 State of New Mexico Severance Tax Bonds, Series 2017A (the "Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision, a prospective investor should read the entire Official Statement. Certain capitalized terms used in the cover page and elsewhere in this Official Statement have the meanings given in the Official Statement.



\$69,470,000
THE STATE OF NEW MEXICO
SEVERANCE TAX BONDS, SERIES 2017A

Dated: Delivery Date

Due: July 1, as shown on the inside front cover

| | |
|------------------------------------|---|
| <i>Ratings on Bonds</i> | "Aa2" Moody's Investors Service, Inc. "AA-" S&P Global Ratings |
| <i>Tax Exemption</i> | In the opinions of Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the "Tax Code"), and interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations. Co-Bond Counsel is also of the opinion that interest on the Series Bonds is exempt from income taxes imposed directly thereon by the State of New Mexico (the "State") under State income tax laws in effect on the date of delivery of the Bonds as described herein. See "TAX MATTERS." |
| <i>Redemption of Bonds</i> | The Bonds will <u>not</u> be subject to optional or mandatory redemption prior to maturity. |
| <i>Source of Payment</i> | The Bonds are special limited obligations of the State payable primarily from, and secured by, taxes levied upon certain natural resource products severed and saved from the soil of the State deposited into the Severance Tax Bonding Fund. |
| <i>Priority</i> | The Bonds are being issued under the authority of NMSA 1978, Sections 7-27-1 through 27 (1961, as amended, through 2017) (the "Severance Tax Bonding Act"). The Bonds will be on a parity with Severance Tax Bonds now or hereafter outstanding and senior to Supplemental Severance Tax Bonds now or hereafter outstanding. |
| <i>Purposes</i> | Net proceeds of the Bonds are being used to provide funds to finance capital improvements approved by the State Legislature. |
| <i>Interest Payment Dates</i> | January 1 and July 1, commencing January 1, 2018. |
| <i>Closing/Settlement</i> | On or about August 8, 2017 |
| <i>Denominations</i> | \$5,000 |
| <i>Book-Entry System</i> | The Depository Trust Company |
| <i>Registrar/Paying Agent</i> | State Treasurer of New Mexico |
| <i>Co-Bond Counsel</i> | Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C. |
| <i>Disclosure Counsel</i> | Kutak Rock LLP |
| <i>Issuer Contact</i> | State Board of Finance: Leila Burrows Kleats, Director, 505-827-4377; LeilaK.Burrows@state.nm.us |
| <i>Date of Official Statement:</i> | July 18, 2017 |

MATURITY SCHEDULE

THE STATE OF NEW MEXICO SEVERANCE TAX BONDS, SERIES 2017A

| Maturity Date (July 1) | Principal Amount | Interest Rate | Yield at Issuance⁽¹⁾ | Price at Issuance⁽¹⁾ | CUSIP⁽²⁾ |
|-----------------------------------|-----------------------------|--------------------------|--|--|----------------------------|
| 2018 | \$1,525,000 | 5.000% | 0.900% | 103.654% | 647310 2E0 |
| 2019 | 3,655,000 | 5.000 | 1.060 | 107.379 | 647310 2F7 |
| 2020 | 5,895,000 | 5.000 | 1.160 | 110.908 | 647310 2G5 |
| 2021 | 8,250,000 | 5.000 | 1.270 | 114.137 | 6473102H3 |
| 2022 | 8,160,000 | 5.000 | 1.360 | 117.187 | 647310 2J9 |
| 2023 | 8,065,000 | 5.000 | 1.490 | 119.744 | 647310 2K6 |
| 2024 | 8,225,000 | 5.000 | 1.620 | 121.971 | 647310 2L4 |
| 2025 | 8,390,000 | 5.000 | 1.780 | 123.623 | 647310 2M2 |
| 2026 | 8,560,000 | 5.000 | 1.960 | 124.707 | 647310 2N0 |
| 2027 | 8,745,000 | 5.000 | 2.110 | 125.690 | 647310 2P5 |

⁽¹⁾ This information has not been provided by the State.

⁽²⁾ Copyright 2017, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein is provided by CUSIP Global Services (“CGS”), which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the State and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. The State takes no responsibility for the accuracy of CUSIP numbers, which are included solely for the convenience of owners of the Bonds.

ELECTED STATE OFFICIALS

SUSANA MARTINEZ
Governor

MAGGIE TOULOUSE OLIVER
Secretary of State

JOHN A. SANCHEZ
Lieutenant Governor

TIM EICHENBERG
State Treasurer

TIM KELLER
State Auditor

HECTOR BALDERAS
Attorney General

AUBREY DUNN
Commissioner of Public Lands

Public Regulation Commissioners:

CYNTHIA B. HALL
District I

PATRICK H. LYONS
District II

VALERIE ESPINOZA
District III

LYNDA LOVEJOY
District IV

SANDY JONES
District V

STATE BOARD OF FINANCE

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President

LT. GOVERNOR
JOHN A. SANCHEZ
Member

STATE TREASURER
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Member

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Secretary

ADELMO ARCHULETA
Member

JOHN KORMANIK
Member

DUFFY RODRIGUEZ
Executive Officer

State Board of Finance
181 Bataan Memorial Building
407 Galisteo Street
Santa Fe, New Mexico 87501
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Leila Burrows Kleats, Director
505-827-4377

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Albuquerque, New Mexico

Sherman & Howard L.L.C.
Albuquerque, New Mexico

DISCLOSURE COUNSEL

Kutak Rock LLP
Denver, Colorado

FINANCIAL ADVISORS

Fiscal Strategies Group, Inc.
Boulder, Colorado

Public Resources Advisory Group
(as subcontractor)
Los Angeles, California

In connection with the offering of the Bonds, the Underwriter (defined below) may over-allot or effect transactions which stabilize or maintain the market price of such Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement and, if given or made, such information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful to make such an offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sales hereunder shall under any circumstances create any implication that there has been no change in the affairs of the State of New Mexico or in the imposition and collection of severance taxes since the date hereof.

This Official Statement contains statements relating to the State's receipt of future revenues that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

The State Board of Finance (the "Board") is the author of this Official Statement and is responsible for its accuracy and completeness. Morgan Stanley & Co. LLC (the "Underwriter") purchased the Bonds pursuant to a public sale held on July 18, 2017. The Underwriter is not the author of this Official Statement. In accordance with their responsibilities under federal securities laws, the Underwriter is required to review the information in this Official Statement and must have a reasonable basis for their belief in the accuracy and completeness of this Official Statement. Both the Preliminary Official Statement and the Official Statement are "deemed final" by the Board for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

CliftonLarsonAllen LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. CliftonLarsonAllen LLP also has not performed any procedures relating to this offering document.

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SUMMARY OF INFORMATION

\$69,470,000 SEVERANCE TAX BONDS, SERIES 2017A

The following material represents a summary of information concerning the Bonds and the security therefor set forth in this Official Statement and is qualified in its entirety by the detailed information herein. Purchasers of the Bonds should review the entire Official Statement before making an investment decision.

| | |
|---------------------------------|--|
| <i>Dated:</i> | Delivery Date. |
| <i>Interest Payment:</i> | Interest is payable semi-annually on January 1 and July 1, commencing on January 1, 2018. |
| <i>Principal Payment:</i> | The Bonds mature in serial installments as set forth on the inside cover page of this Official Statement. |
| <i>Redemption of Bonds:</i> | The Bonds will <u>not</u> be subject to optional or mandatory redemption prior to maturity. |
| <i>Registration:</i> | The Bonds are being issued solely in book-entry form in the denomination of \$5,000 or any integral multiple thereof. The Bonds are being registered to Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository. |
| <i>Legal Opinion:</i> | The Bonds are offered when, as and if issued, subject to the approval of legality by Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel. |
| <i>Security:</i> | The Bonds constitute special limited obligations of the State of New Mexico and will be payable solely from deposits to and revenues of the Severance Tax Bonding Fund (the “Bonding Fund”), consisting primarily of receipts from certain taxes levied on certain natural resource products severed and saved from the soil of the State of New Mexico as more fully described herein. |
| <i>Additional Parity Bonds:</i> | The State Board of Finance is prohibited by State statute from issuing Senior Severance Tax Bonds unless the total aggregate amount of Senior Severance Tax Bonds outstanding, including the bonds to be issued, can be serviced with not more than the following percentages of the annual deposits into the Bonding Fund, as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Board of Finance Division of the Department of Finance and Administration: for Fiscal Year 2017, 48.8 percent; for Fiscal Year 2018, 48.2 percent; and for Fiscal Year 2019 and subsequent fiscal years, 47.6 percent. |

THE STATE OF NEW MEXICO
\$69,470,000 SEVERANCE TAX BONDS, SERIES 2017A

INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover page, the Summary of Information and the Appendices hereto, is to furnish information regarding the issuance of the \$69,470,000 State of New Mexico Severance Tax Bonds, Series 2017A (the “Bonds”), by the State of New Mexico (the “State”), and the State Board of Finance (the “Board”).

The Bonds are being issued under authority of the Severance Tax Bonding Act, NMSA 1978, Sections 7-27-1 through -27 (1961, as amended through 2017) (the “Severance Tax Bonding Act”), and pursuant to a resolution of the Board adopted on June 20, 2017 and a bond sale resolution of the Board adopted on July 18, 2017 (collectively, the “Bond Resolution”).

This Official Statement contains summaries of the terms of the Bonds, certain fiscal matters of the State, and the Severance Taxes (defined below) imposed by the State. The descriptions included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and descriptions are qualified in their entirety by reference to such laws, and the definitive forms of documents, exhibits or appendices where applicable.

Requests for additional information about the State, the Severance Taxes, or requests for copies of any document or statute referred to in this Official Statement, may be directed to:

| | |
|-----------|---|
| Contact: | State Board of Finance Attn: Leila Burrows Kleats |
| Phone: | (505) 827-4377 |
| Mail: | 181 Bataan Memorial Building 407 Galisteo Street Santa Fe, NM 87501 |
| E-mail: | LeilaK.Burrows@state.nm.us |
| Web Site: | http://nmdfa.state.nm.us/board_of_finance.aspx |

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TABLE 1
Summary of Projected and Historical Coverage in Severance Tax Bonding Fund
Fiscal Year Ended June 30
(Dollars in thousands)

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Projected Bonding Fund Receipts | \$333,857 | \$344,799 | \$351,212 | \$359,342 | \$364,266 |
| Senior Bond Debt Service ^{(1),(2)} | \$142,160 | \$142,266 | \$131,160 | \$122,331 | \$107,612 |
| Senior Bond Debt Service Coverage Ratio | 2.35x | 2.42x | 2.68x | 2.94x | 3.39x |
| Supplemental Bond Debt Service ⁽²⁾ | \$20,474 | \$21,142 | \$21,413 | \$20,591 | \$9,121 |
| Supplemental Bond Debt Service Coverage Ratio | 2.05x | 2.11x | 2.30x | 2.51x | 3.12x |
| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
| Bonding Fund Receipts | \$423,923 | \$541,218 | \$499,509 | \$309,940 | \$320,361 |
| Senior Bond Debt Service | \$127,951 | \$126,397 | \$137,412 | \$142,085 | \$141,063 |
| Senior Bond Debt Service Coverage Ratio | 3.31x | 4.28x | 3.64x | 2.18x | 2.27x |
| Supplemental Bond Debt Service | \$21,483 | \$15,605 | \$13,986 | \$13,842 | \$19,026 |
| Supplemental Bond Debt Service Coverage Ratio | 2.84x | 3.81x | 3.30x | 1.99x | 2.00x |

⁽¹⁾ Includes debt service on the Bonds. Revenue projections are subject to continued review.

⁽²⁾ Excludes debt service on refunded bonds, if any, which will be paid from escrowed securities and severance tax debt obligations sold to the State Treasurer that are retired within the same fiscal year.

Source: Table compiled by Financial Advisors from State data.

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THE SEVERANCE TAX BONDS

General Terms

The Bonds are dated their date of delivery, bear interest until the principal amount thereof is paid, and mature as set forth on the inside cover page hereof. Interest on the Bonds is payable on January 1 and July 1, commencing on January 1, 2018. The Bonds are being issued solely in book-entry form in denominations of \$5,000 or integral multiples thereof. The Bonds are being registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository for the Bonds. The Bonds are subject to transfer and exchange as set forth in the Bond Resolution.

No Optional or Mandatory Redemption of Bonds

The Bonds are not subject to optional or mandatory redemption prior to maturity.

Security for the Bonds

There are two categories of bonds issued by the Board wherein the money in the Severance Tax Bonding Fund (the “Bonding Fund”) is pledged for their retirement. Those bonds are referred to in the Severance Tax Bonding Act as “New Mexico Severance Tax Bonds” and as “New Mexico Supplemental Severance Tax Bonds” but, for clarity, are referred to herein as “Senior Severance Tax Bonds” and “Supplemental Severance Tax Bonds,” respectively. Where appropriate, Senior Severance Tax Bonds and Supplemental Severance Tax Bonds are collectively referred to herein as “Severance Tax Bonds.”

Security for the Bonds

The Board is prohibited by statute from issuing Senior Severance Tax Bonds and short-term Senior Severance Tax Funding Notes (“Senior Funding Notes”) unless the aggregate amount of total Senior Severance Tax Bonds and Senior Funding Notes outstanding, after giving effect to the proposed issuance, can be serviced with not more than the following percentages of the annual deposits into the Bonding Fund, as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Board of Finance Division of the Department of Finance and Administration (the “Division”):

- (1) For fiscal year 2017, 48.8 percent;
- (2) For fiscal year 2018, 48.2 percent; and
- (3) For fiscal year 2019 and subsequent fiscal years, 47.6 percent.

The Board is prohibited by statute from issuing Supplemental Severance Tax Bonds with a term that extends beyond the fiscal year in which they are issued unless the aggregate amount of Senior Severance Tax Bonds, Senior Funding Notes and Supplemental Severance Tax Bonds outstanding, after giving effect to the proposed issuance, can be serviced with not more than the following percentages of the annual deposits into the Bonding Fund, as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Division:

- (1) For fiscal year 2017, 61.3 percent;
- (2) For fiscal year 2018, 60.7 percent; and
- (3) For fiscal year 2019 and subsequent fiscal years, 60.1 percent.

In addition, short-term Supplemental Severance Tax Funding Notes (“Supplemental Funding Notes”) may be issued if the debt service on such Supplemental Funding Notes, when added to the debt service previously paid or scheduled to be paid during that fiscal year on Senior Severance Tax Bonds, Senior Funding Notes and Supplemental Severance Tax Bonds does not exceed the following percentages of the lesser of the deposits in the Bonding Fund during the preceding fiscal year or the deposits into the Bonding Fund during the current fiscal year as estimated by the Division:

- (1) For fiscal year 2017, 93.8 percent;
- (2) For fiscal year 2018, 93.2 percent;
- (3) For fiscal year 2019, 91 percent;
- (4) For fiscal year 2020, 89.4 percent;
- (5) For fiscal year 2021, 87.8 percent; and
- (6) For fiscal year 2022 and subsequent fiscal years, 86.2 percent.

The Senior Severance Tax Bonds and Senior Funding Notes fund a wide variety of capital projects while Supplemental Severance Tax Bonds and Supplemental Funding Notes are earmarked for capital projects for public education. The Board has authority to issue Supplemental Severance Tax Bonds and Supplemental Funding Notes for public school projects in amounts certified to the Board from time to time by the Public School Capital Outlay Council of the State. The lien of the pledge of such Supplemental Severance Tax Bonds and Supplemental Funding Notes is subordinate to any outstanding Senior Severance Tax Bonds and Senior Funding Notes.

The total aggregate principal amount of outstanding Severance Tax Bonds issued by the State does not now, nor will such amount upon the issuance of the Bonds, exceed any applicable limit prescribed by the Constitution or laws of the State.

The Bonds, all currently outstanding Senior Severance Tax Bonds, and any Senior Severance Tax Bonds or Senior Funding Notes issued on a parity with the Bonds will have a pledge and lien senior to any Supplemental Severance Tax Bonds or Supplemental Funding Notes now outstanding or hereafter issued.

The Bonds are special obligations of the State secured by and payable solely from, on a parity basis to Senior Severance Tax Bonds and Senior Funding Notes now or hereafter outstanding and on a prior lien basis to Supplemental Severance Tax Bonds and Supplemental Funding Notes now or hereafter outstanding, deposits to the Bonding Fund into which are deposited, pursuant to the Severance Tax Bonding Act, the net receipts from taxes levied in accordance with the Severance Tax Act, NMSA 1978, Sections 7-26-1 through -8 (1937, as amended through 1999) (the “Severance Tax Act”), and the Oil and Gas Severance Tax Act, NMSA 1978, Sections 7-29-1 through -23 (1959, as amended through 2008) (the “Oil and Gas Severance Tax Act”), upon certain natural resource products severed and saved from the soil of the State (“Severance Taxes”), investment earnings on such deposits and on unused bond proceeds in certain accounts, and such other moneys as the Legislature in its sole discretion may from time to time determine. On June 30 and December 31 of each year, the excess money in the Bonding Fund over the amount necessary to meet all principal and interest payments on all outstanding Severance Tax Bonds on the next two ensuing semiannual payment dates must be transferred to the Severance Tax Permanent Fund.

Once moneys are so transferred, they no longer may be used to pay, or to secure payment of, principal, premium, if any, or interest on any Severance Tax Bonds. Severance Tax Bonds are not general obligations of the State and the State is prohibited by law from using the proceeds of property taxes as a source of payment of revenue bonds, including Severance Tax Bonds.

The State Treasurer keeps separate accounts for all money collected as Severance Taxes, and is directed by State statute to pay Severance Tax Bonds from moneys on deposit in the Bonding Fund. The Bond Resolution provides for the creation of a separate Debt Service Account within the Bonding Fund for the payment of principal and interest on the Bonds.

The Severance Tax Bonding Act requires the Legislature to provide for the continued assessment, levy, collection and deposit into the Bonding Fund of Severance Taxes which, together with such other moneys as may be deposited into the Bonding Fund, will be sufficient to produce an amount at least equal to annual debt service on all outstanding Severance Tax Bonds.

In addition, the Board covenants in the Bond Resolution that the State will use its best efforts to collect and deposit in the Bonding Fund sufficient income from Severance Taxes so that, when combined with other moneys deposited in the Bonding Fund, the amount deposited annually in the Bonding Fund will equal at least 200 percent of the amount of the principal and interest scheduled to be due in each fiscal year on all Senior Severance Tax Bonds, including the Bonds, and at least 160 percent of the amount of the principal and interest scheduled to be due in each fiscal year on all Supplemental Severance Tax Bonds. However, the Board does not have the power to levy or impose Severance Taxes, and no assurance exists that the 200 percent requirement or the 160 percent requirement will be met.

USE OF PROCEEDS

Purpose

The proceeds of the Bonds are being used to provide funds to finance capital improvements as described in legislation approved by the State Legislature and signed by the Governor.

The proceeds of the Bonds are expected to be applied in the manner set forth in the following table:

SOURCES:

| | |
|------------------------|-------------------------------|
| Par Amount | \$69,470,000.00 |
| Original Issue Premium | <u>13,280,162.00</u> |
| TOTAL SOURCES | <u>\$82,750,162.00</u> |

USES:

| | |
|------------------------------------|-------------------------------|
| Deposit to Capital Project Account | \$82,613,985.90 |
| Underwriter's Discount | 135,395.37 |
| Contingency | <u>780.73</u> |
| TOTAL USES | <u>\$82,750,162.00</u> |

SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS

Severance Taxes have been collected by the State since the adoption of the Severance Tax Act in 1937. Since 1959, certain Severance Tax receipts and certain other moneys determined by the Legislature have been deposited into the Bonding Fund and used, in part, to service bond issues, which have funded a variety of capital improvements in the State. Pursuant to the provisions of the Severance Tax Act and the Oil and Gas Severance Tax Act, Severance Tax receipts, including penalties and interest, and such other moneys as the Legislature in its sole discretion may from time to time determine (including interest earnings on moneys in the Bonding Fund and the project accounts and reversions from project accounts in the Bonding Fund), are deposited into the Bonding Fund. As of the date of this Official Statement, other moneys including interest earnings on moneys in the Bonding Fund, reversions from project accounts in

the Bonding Fund, prepayments and tax settlements have been deposited. See Table 5 entitled “Severance Tax Bonding Fund Receipts, Disbursements and Transfers” herein. The moneys in the Bonding Fund are pledged for the payment of principal, premium, if any, and interest on Severance Tax Bonds and Supplemental Severance Tax Bonds, and there are no other liens or encumbrances of any nature on or against (i) the Bonding Fund, or (ii) the net revenues derived from Severance Taxes that are required to be credited to the Bonding Fund. The moneys in the Bonding Fund are also available to pay costs of issuance in connection with the sale of Severance Tax Bonds and Supplemental Severance Tax Bonds.

Severance taxation is determined by State statute. For a description of the various Severance Tax rates and methods of their calculation, see “SEVERANCE TAX REVENUE” below.

Investments

Funds on deposit in the Bonding Fund are invested by the State Treasurer at the direction and approval of the Board, pursuant to the State Treasurer’s Investment Policy (“Investment Policy”) adopted on May 20, 2014. For a description of the Investment Policy, see “Appendix A.” Investments are made in securities, which are at the time legal investments of the State, and no such investment or deposit shall violate any applicable restrictions imposed by the Tax Code (defined herein) and applicable Treasury Regulations relating to the market price and the existence of an established market.

Except for funds deposited into the Rebate Fund (defined in the Bond Resolution), net interest earned on the amounts on deposit in the Debt Service Account shall be retained therein, and net interest earned on amounts on deposit in the Project Fund shall be credited to the Debt Service Account and applied to the payment of principal and interest on the Bonds next becoming due. Any net loss, after applying any earnings in that account or fund to the loss, resulting from any investment shall be charged to the applicable account from which such investment was made.

Issuance of Severance Tax Bonds

The Severance Tax Bonding Act authorizes the issuance and sale of Senior Severance Tax Bonds and Supplemental Severance Tax Bonds payable from the net receipts from taxes levied upon certain natural resource products severed and saved from the soil (“Severance Taxes”) in accordance with the provisions of, and as described in, the Severance Tax Bonding Act.

Severance Taxes are collected on a monthly basis by the New Mexico Taxation and Revenue Department (the “TRD”) and deposited in the Extraction Taxes Suspense Fund within the General Fund of the State. If the TRD determines that there is no substantial risk of protest or litigation related to those tax revenues, they are released from the Extraction Taxes Suspense Fund and deposited in the Bonding Fund in the month following the collection of the Severance Taxes; otherwise the tax revenues are held in the Extraction Taxes Suspense Fund until the substantial risk of protest or litigation is no longer present.

On December 31 and June 30 of each fiscal year, excess funds in the Bonding Fund are transferred into the Severance Tax Permanent Fund. Excess funds are defined as funds in excess of the next two semi-annual payments of debt service on Severance Tax Bonds. **Balances in the Severance Tax Permanent Fund are not pledged as security for the Bonds.**

In addition to the sale of long-term Senior Severance Tax Bonds and Supplemental Severance Tax Bonds, the State issues Senior Funding Notes and Supplemental Funding Notes from time to time to utilize excess capacity available in the Bonding Fund, as authorized by the Legislature, and to make those funds available for capital projects of the State. The Senior Funding Notes and Supplemental Funding

Notes generally are taxable for federal income tax purposes, have a maturity of five days or less, mature in the fiscal year in which they are issued and are purchased by the State Treasurer.

State Capital Program

State General Fund balances and proceeds from General Obligation Bonds, Senior Severance Tax Bonds, Supplemental Severance Tax Bonds are important sources of capital financing for the State. The following table summarizes the capital funding administered by the Board and certain other sources for Fiscal Year 2013 through Fiscal Year 2017 year-to-date.

**TABLE 2
Principal Sources of Capital Project Funding
Fiscal Year Ended June 30
(Dollars in millions)**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|----------------|----------------|----------------|----------------|----------------|
| Proceeds from General Obligation Bonding Program⁽¹⁾ | | | | | |
| General Obligation Bonds | \$139.3 | \$ 0.0 | \$167.0 | \$ 0.0 | \$ 0.0 |
| Subtotal | <u>139.3</u> | <u>0.0</u> | <u>167.0</u> | <u>0.0</u> | <u>0.0</u> |
| Proceeds from Severance Tax Bonding Program⁽¹⁾ | | | | | |
| Severance Tax Bonds | 0.0 | 339.7 | 0.0 | 293.1 | 51.0 |
| Severance Tax Funding Notes ⁽²⁾ | 112.0 | 90.5 | 128.2 | 8.6 | 38.5 |
| Supplemental Severance Tax Bonds | 0.0 | 0.0 | 0.0 | 81.0 | 0.0 |
| Supplemental Severance Tax Funding Notes ⁽²⁾ | <u>167.8</u> | <u>175.2</u> | <u>214.5</u> | <u>127.3</u> | <u>120.4</u> |
| Subtotal | <u>279.8</u> | <u>605.4</u> | <u>342.7</u> | <u>510.0</u> | <u>209.9</u> |
| Proceeds From Other Sources | | | | | |
| Transportation Bonds | <u>0.0</u> | <u>70.1</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| Subtotal | <u>0.0</u> | <u>70.1</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| Total⁽³⁾ | <u>\$419.1</u> | <u>\$675.5</u> | <u>\$509.7</u> | <u>\$510.0</u> | <u>\$209.9</u> |

⁽¹⁾ Dollar amounts from State Board of Finance funding programs reflect net proceeds available for capital expenditure. Amounts vary annually by legislative action and the timing of bond closings.

⁽²⁾ The Board issues Senior Funding Notes and Supplemental Funding Notes to fund authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.

⁽³⁾ Totals may not add due to rounding.

Source: New Mexico State Board of Finance and the New Mexico Finance Authority.

In addition to the General Obligation Bonding Program, the Severance Tax Bonding Program and the Supplemental Severance Tax Bonding Program issued and administered by the Board, there are a number of other sources of funds for capital projects throughout the State. These other sources of funding include surplus General Fund appropriation, special appropriations and proceeds of bonds issued by, among others, the New Mexico Finance Authority, the State Transportation Commission and state educational institutions.

Outstanding and Additional Senior Severance Tax Bonds

The Bonds will be secured on a parity with the following Senior Severance Tax Bonds currently outstanding (exclusive of those Senior Severance Tax Bonds additionally secured by escrowed securities).

The Bonds will be issued with a lien senior to the Supplemental Severance Tax Bonds currently outstanding prior to the delivery of the Bonds. See “Outstanding and Additional Supplemental Severance Tax Bonds” below.

TABLE 3
Outstanding Senior Severance Tax Bonds Upon the Delivery of the Bonds

| | <u>Prior to Delivery</u> | <u>After Delivery</u> |
|---|--------------------------|-----------------------|
| Severance Tax Bonds, Series 2009A | \$ 53,125,000 | \$ 36,295,000 |
| Severance Tax Bonds, Series 2010A | 60,200,000 | 46,235,000 |
| Severance Tax Bonds, Refunding Series 2010D | 14,725,000 | -- |
| Severance Tax Bonds, Series 2011A-1 | 19,745,000 | 14,270,000 |
| Severance Tax Bonds, Refunding Series 2011A-2 | 32,460,000 | 16,625,000 |
| Severance Tax Bonds, Series 2012A | 42,325,000 | 36,120,000 |
| Severance Tax Bonds, Series 2013A | 30,205,000 | 15,470,000 |
| Severance Tax Bonds, Series 2014A | 40,055,000 | 28,665,000 |
| Severance Tax Bonds, Series 2015A | 126,195,000 | 121,195,000 |
| Severance Tax Bonds, Series 2016A | 78,750,000 | 78,750,000 |
| Severance Tax Bonds, Refunding Series 2016B | 181,395,000 | 181,395,000 |
| Taxable Severance Tax Bonds, Series 2016C | 41,925,000 | 37,125,000 |
| Severance Tax Bonds, Series 2016D | 26,725,000 | 26,725,000 |
| Taxable Severance Tax Bonds, Series 2016E | 19,090,000 | 19,090,000 |
| Severance Tax Bonds, Series 2017A | -- | 69,470,000 |
| Total | <u>\$766,920,000</u> | <u>\$727,430,000</u> |

Source: New Mexico State Board of Finance.

Additional senior lien bonds may be issued in the future only if certain statutory conditions as to debt service capacity are met. See “THE SEVERANCE TAX BONDS—Security for the Bonds.”

Outstanding and Additional Supplemental Severance Tax Bonds

Supplemental Severance Tax Bonds are authorized pursuant to an amendment to the Severance Tax Bonding Act enacted in 1999. In Fiscal Year 2018, long-term Supplemental Severance Tax Bonds may be issued if all outstanding Senior Severance Tax Bonds, Senior Funding Notes and Supplemental Severance Tax Bonds, including the proposed bonds, can be serviced with not more than 60.7 percent of the annual deposits into the Bonding Fund as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Division. In addition, in Fiscal Year 2018, Supplemental Funding Notes may be issued with a term that does not extend beyond the then current fiscal year if the debt service on such Supplemental Funding Notes, when added to the debt service previously paid or scheduled to be paid during that fiscal year on Senior Severance Tax Bonds, Senior Funding Notes, Supplemental Severance Tax Bonds and any other Supplemental Funding Notes, does not exceed 93.2 percent of the deposits into the Bonding Fund as determined by the lesser of the deposits during the preceding fiscal year or the deposits during the current fiscal year as estimated by the Division. The Board has been authorized by statute to issue Supplemental Severance Tax Bonds and Supplemental Funding Notes for public school projects in amounts certified to the Board from time to time by the Public School Capital Outlay Council of the State. The lien of the pledge of such Supplemental Severance Tax Bonds and Supplemental funding Notes is subordinate to any Senior Severance Tax Bonds.

TABLE 4
Outstanding Supplemental Severance Tax Bonds
Upon the Delivery of the Bonds

| | Prior to Delivery | After Delivery |
|--|--------------------------|-----------------------|
| Supplemental Severance Tax Bonds, Series 2010B | \$ 42,850,000 | \$32,635,000 |
| Supplemental Severance Tax Bonds, Series 2015B | <u>66,345,000</u> | <u>61,045,000</u> |
| Total | <u>\$109,195,000</u> | <u>\$93,680,000</u> |

Source: New Mexico State Board of Finance.

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The following tables set forth actual and projected results for the Bonding Fund including receipts, disbursements, debt service requirements, transfers and projected debt service coverage ratios.

TABLE 5
Severance Tax Bonding Fund
Receipts, Disbursements and Transfers
Fiscal Year Ended June 30 ^{(1), (2)}
(Dollars in thousands)

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> <u>(prelim)</u> |
|--|---------------------------------|-------------------------------|------------------|------------------|--------------------------------|
| Beginning Balance | \$254,810 | \$142,806 | \$19,572 | \$152,471 | \$161,271 |
| Receipts: | | | | | |
| Taxes: | | | | | |
| Oil and Gas Severance Tax | 400,959 | 518,371 | 474,533 | 289,063 | 297,826 |
| Other Minerals Severance Taxes | <u>13,416</u> | <u>12,297</u> | <u>11,506</u> | <u>10,102</u> | <u>7,868</u> |
| Total Severance Taxes ⁽³⁾ | <u>414,375</u> | <u>530,668</u> | <u>486,039</u> | <u>299,165</u> | <u>305,694</u> |
| Other Income: | | | | | |
| Interest on Investments | 6,772 | 5,844 | 5,035 | 9,292 | 8,853 |
| Other financing sources | <u>2,777</u> | <u>4,706</u> | <u>8,435</u> | <u>1,483</u> | <u>5,813</u> |
| Total Other Income | <u>9,549</u> | <u>10,552</u> | <u>13,470</u> | <u>10,775</u> | <u>14,666</u> |
| Total Receipts | <u>423,923</u> | <u>541,219</u> | <u>499,509</u> | <u>309,940</u> | <u>320,360</u> |
| Disbursements: | | | | | |
| Senior Bond Debt Service | 127,951 | 246,999 ⁽⁴⁾ | 16,795 | 142,085 | 141,063 |
| Senior Short-term Obligations ⁽⁵⁾ | 111,999 | 90,545 | 128,217 | 8,615 | 38,468 |
| Supplemental Bond Debt Service | 21,483 | 28,084 ⁽⁶⁾ | 1,507 | 13,842 | 19,026 |
| Supplemental Short-term Obligations ⁽⁵⁾ | 167,832 | 175,161 | 214,472 | 127,290 | 120,447 |
| Costs of Issuance and Other Charges | <u>2,744 ⁽⁷⁾</u> | <u>(1,331) ⁽⁷⁾</u> | <u>639</u> | <u>841</u> | <u>987</u> |
| Total Disbursements | <u>432,039</u> | <u>539,458</u> | <u>361,630</u> | <u>292,672</u> | <u>319,991</u> |
| Transfers: | | | | | |
| To Severance Tax Permanent Fund | <u>103,888</u> | <u>124,996</u> | <u>4,980</u> | <u>8,468</u> | <u>--</u> |
| Total Transfers | <u>103,888</u> | <u>124,996</u> | <u>4,980</u> | <u>8,468</u> | <u>--</u> |
| Ending Balance, June 30 | <u>\$142,806 ⁽⁸⁾</u> | <u>\$19,571</u> | <u>\$152,471</u> | <u>\$161,271</u> | <u>\$161,640</u> |

⁽¹⁾ All receipts, expenditures and balances exclude amounts in rebate accounts retained for potential arbitrage rebates.

⁽²⁾ Proceeds and expenditures attributable to refunding bonds are excluded from this table because such proceeds and expenditures are reserved for payments on appropriate refunding bonds and are not available for debt service payments on other Severance Tax Bonds.

⁽³⁾ Reflects severance taxes collected and accrued on a cash basis. Effective July 1, 2017, the State of New Mexico will be accounting for such receipts on a modified accrual basis. All severance tax collections in this official statement are shown on a cash basis.

⁽⁴⁾ Includes \$120.6 million July 1, 2014 principal and interest payment on Severance Tax Bonds that was paid on June 27, 2014.

⁽⁵⁾ The Board issues short-term Severance Tax Funding Notes and Supplemental Severance Tax Funding Notes to fund the authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.

⁽⁶⁾ Includes \$12.5 million July 1, 2014 principal and interest payment on Supplemental Severance Tax Bonds that was paid on June 27, 2014.

⁽⁷⁾ Fiscal Year 2013 includes \$2.2 million that was incorrectly debited a second time in July 2012 for the August 2011 arbitrage rebate payment made to the Internal Revenue Service as part of the State Treasurer's Fiscal Year 2012 audit adjustments. Fiscal Year 2014 reflects reversal of this error in November 2013.

⁽⁸⁾ The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 3, 2012 in the amount of \$103.9 million.

Source: New Mexico State Board of Finance based on the Statewide Human Resources, Accounting, and Management Reporting System (the "SHARE System").

TABLE 6
Severance Tax Bonding Fund Projected Receipts
Fiscal Year Ending June 30 ⁽¹⁾
(Dollars in thousands)

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Severance Tax Bonding Fund Receipts | | | | | |
| Taxes: Natural Gas | \$ 94,117 | \$ 91,199 | \$ 88,372 | \$ 87,262 | \$ 87,566 |
| Oil | <u>217,140</u> | <u>231,000</u> | <u>240,240</u> | <u>249,480</u> | <u>254,100</u> |
| <i>Subtotal-Oil & Gas Severance Tax</i> | <u>311,257</u> | <u>322,199</u> | <u>328,612</u> | <u>336,742</u> | <u>341,666</u> |
| Other Severance Taxes | | | | | |
| Coal | 6,600 | 6,600 | 6,600 | 6,600 | 6,600 |
| Other Minerals | <u>2,000</u> | <u>2,000</u> | <u>2,000</u> | <u>2,000</u> | <u>2,000</u> |
| <i>Subtotal-Other Severance Tax</i> | <u>8,600</u> | <u>8,600</u> | <u>8,600</u> | <u>8,600</u> | <u>8,600</u> |
| Investment Earnings | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| Other Income | <u>6,000</u> | <u>6,000</u> | <u>6,000</u> | <u>6,000</u> | <u>6,000</u> |
| Total Receipts | <u>\$333,857</u> | <u>\$344,799</u> | <u>\$351,212</u> | <u>\$359,342</u> | <u>\$364,266</u> |

⁽¹⁾ Columns may not add due to rounding.

Source: New Mexico Department of Finance and Administration.

See also, “NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE—Projections of Severance Tax Revenues from Natural Gas,” and “OIL PRODUCTION AND SEVERANCE TAX REVENUE—Projections of Severance Tax Revenues from Oil” herein.

TABLE 7
State of New Mexico Severance Tax Bonds
Projected Cash Receipts, Debt Service Requirements and Coverage

| Fiscal Year Ending June 30 | Projected STBF Revenues | Scheduled Senior Debt Service⁽¹⁾ | Projected Senior Debt Service Coverage | Scheduled Supplemental Debt Service⁽¹⁾ | Projected Supplemental Coverage |
|---|--|--|---|--|--|
| 2017 | \$320,360,575 | \$141,063,473 | 2.27x | \$19,025,925 | 2.00x |
| 2018 | 333,857,032 | 142,160,463 | 2.35 | 20,474,425 | 2.05 |
| 2019 | 344,799,404 | 142,266,354 | 2.42 | 21,141,675 | 2.11 |
| 2020 | 351,212,222 | 131,159,548 | 2.68 | 21,413,175 | 2.30 |
| 2021 | 359,341,617 | 122,331,073 | 2.94 | 20,591,400 | 2.51 |
| 2022 | 364,266,010 | 107,611,674 | 3.39 | 9,121,125 | 3.12 |
| 2023 | 364,550,322 | 98,796,900 | 3.69 | 9,122,500 | 3.38 |
| 2024 | 364,814,957 | 87,156,050 | 4.19 | 9,124,625 | 3.79 |
| 2025 | 365,060,313 | 68,225,000 | 5.35 | 9,121,625 | 4.72 |
| 2026 | 365,286,782 | 49,844,875 | 7.33 | 9,122,500 | 6.19 |

⁽¹⁾ Includes debt service on the Bonds. Excludes debt service on refunded bonds which will be payable from escrowed securities and severance and supplemental severance tax debt obligations sold to the State Treasurer which are retired within the same fiscal year.

Sources: New Mexico State Board of Finance and Fiscal Strategies Group.

See also, Table 6 entitled “Severance Tax Bonding Fund Projected Receipts” above.

SEVERANCE TAX REVENUE

The minerals extracted from the State that contribute the largest portion of Severance Tax revenues are natural gas, crude oil and coal. Severance Taxes from natural gas and crude oil together account for an estimated 97.4 percent of projected Fiscal Year 2017 Bonding Fund tax receipts. This percentage is calculated net of applicable intergovernmental tax credits.

The State's Energy, Minerals, and Natural Resources Department ("EMNRD") records and generates data on mineral resources in the State. EMNRD produces annual reports on the State's mineral resources. The TRD compiles reports of taxable volume, value, deductions and tax receipts by commodity and land type. The State Consensus Revenue Estimating Group (the "Consensus Group") is composed of economists from the executive and legislative branches of New Mexico state government. The Consensus Group's annual production estimates are made jointly by the Department of Finance and Administration (the "DFA"), the TRD, the Department of Transportation and the Legislative Finance Committee. The DFA uses these price and volume estimates as well as national price forecasts to project Severance Tax receipts. See "APPENDIX C—FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTERS" for a discussion of pending litigation and other proceedings concerning the collection of Severance Taxes.

Severance Tax Collections and Reporting

Operators, purchasers and working interest owners are required to submit monthly reports to the TRD showing the total value, volume and kind of products sold from every production unit each month. Taxes must be paid at the same time and are due 55 days after the month of production. Each production report must include a company identification number, which facilitates automated processing of return information. Production and associated tax liability are reported by "production unit" and a designation for a well or group of wells that is assigned by the TRD based on the master operator, property name identification and pool. A suffix is added to the production unit number to designate the specific land type and taxing authority, which includes county, school district and/or municipality. During calendar year 2016, the TRD received an average of 501 oil and natural gas returns per month containing an average of 94,665 lines of reported tax detail from production units in the State.

Complete reporting forms must be mailed or delivered, or their information electronically transmitted, on or before the 25th day of the second month after the calendar month for which the report is required. Taxpayers whose total tax liability for the month (including the oil and gas emergency school tax, the oil and gas conservation tax, and the oil and gas ad valorem tax, as well as the oil and gas severance tax) exceeds \$25,000 must provide payment by automated clearinghouse or by wire transfer on or before the due date. Taxpayers who fail to report or pay in a timely fashion are assessed interest at the rate established for individuals under Internal Revenue Code Section 6621, which computes on a daily basis beginning the day after the due date and continuing until the date the tax is reported or paid. A penalty is assessed at a rate of 2 percent per month, up to a maximum of 20 percent of the tax due; when a taxpayer fails to pay any tax or file any report by the due date because of negligence or disregard of rules and regulations.

The State maintains an automated database system ("ONGARD" for Oil and Natural Gas Administration and Revenue Database) to monitor production and sales activities of oil and natural gas producers. ONGARD functions include: managing production related information; maintenance of tax rate information for the taxing authorities; processing of tax returns, payments, and distribution; managing and tracking the inventory of lands within the State and all leases to determine whether royalty payments are owed to the State; monitoring all oil and natural gas wells for compliance with unitization/communitization agreements and other production-related information; and processing royalty

payments due to the State. The integrated database gives the State enhanced capabilities to audit, compare and evaluate production, tax and royalty reports, and to issue automated exception reports.

Severance taxes received by the TRD are deposited into the Extraction Taxes Suspense Fund. Using the ONGARD system, the TRD reconciles monthly information reports with the payments received to identify the appropriate amounts to distribute to each tax beneficiary. Oil and gas severance tax amounts that have been reconciled and as to which TRD has determined no substantive risk of protest or litigation is present are then transferred monthly to the Bonding Fund. TRD is currently in the process of transitioning ONGARD capabilities to a more modern system.

Severance Tax on Indian Land

The State can tax non-Indian oil and natural gas production on tribal land, according to United States Supreme Court precedent in *Cotton Petroleum Co. v. State of New Mexico*, 490 U.S. 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989). The State's authority to impose severance taxes on Indian oil and natural gas production on tribal land was upheld by the United States District Court in New Mexico in *Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922. In 2009, the United States District Court for the District of New Mexico held that the State may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal land of the Ute Mountain Ute Tribe. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009) (Parker, J.). The Tenth Circuit Court of Appeals overturned the district court opinion and held that the State severance taxes are not preempted by federal law because, among other things, the State had asserted sufficient justification for imposing the taxes. *Ute Mountain Ute Tribe v. Rodriguez*, 660 F.3d 1177 (10th Cir. 2011). The Ute Mountain Ute Tribe petitioned for an *en banc* review, which the court denied on September 12, 2011. The United States Supreme Court denied the Ute Mountain Ute Tribe's petition for a writ of certiorari on February 21, 2012. *Ute Mountain Ute Tribe v. Padilla*, 132 S.Ct. 1557 (2012).

Information reported on the ONGARD website by TRD based on oil and gas tax return data indicates that natural gas production and crude oil production on Indian land was approximately 3.6 percent and 0.7 percent, respectively, of total statewide production in Fiscal Year 2016. The TRD estimates that oil and natural gas production on Indian land generated \$3.2 million in gross Oil and Gas Severance Tax revenues to the State before the claiming of applicable credits in the production months corresponding to Fiscal Year 2016. On December 30, 2014, the Navajo Nation completed the purchase of the Navajo coal mine. As a result, there has not been any production reported to the TRD since such purchase. No potash, copper or carbon dioxide (CO₂) is produced on Indian land.

Section 7-29C-1 NMSA 1978, enacted by the 1995 Legislature, authorized a credit against state production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of state taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State's credit is lowered. The ONGARD website reports that total credits claimed under this provision were about \$1.1 million in Fiscal Year 2016. About \$442,000 of these credits were applied against oil and natural gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

The 2001 Legislature enacted NMSA 1978, Sections 7-29C-2 (2001), 7-9-88.2 (2001) and 9-11-12.2 (2001), which provided a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation. The TRD reports that this credit did not reduce

Bonding Fund revenue in Fiscal Year 2016. Data for Fiscal Year 2017 was not available at the time of publication.

Recent Local Law Developments

Over the past few years, several local governments in the State have proposed or adopted laws that could have the effect of limiting natural resource extraction in those jurisdictions. No local government in which a significant extraction of natural resources occurs has enacted laws limiting natural resource extraction.

In 2008, Santa Fe County amended its land development code to address oil and gas exploration, drilling, production, transportation, abandonment and remediation. The provisions of this code, while restrictive, do not ban exploration activities and to date have not been challenged by lawsuit. In April 2013, Mora County, a county in the north central section of the State enacted a self-styled Community Water Rights and Local Self Government Ordinance, which, among other things, states: “It shall be unlawful for any corporation to engage in the extraction of oil, natural gas, or other hydrocarbons within Mora County.” Several lawsuits were filed challenging the validity of this Ordinance. In January 2015, a federal district court declared the Mora County ordinance invalid based on several grounds including violation of the Supremacy Clause and the First Amendment of the U.S. Constitution and preemption by New Mexico oil and gas regulatory statutes. *SWEPI, LP v. Mora County*, 81 F. Supp. 3d 1075 (D.N.M. Jan. 19, 2015). In March 2015, the Mora County Commission voted to repeal the ordinance. Legislation heavily regulating oil and gas development was adopted in November 2014 in San Miguel County, also in the north central section of the State. Legislation banning hydraulic fracturing was adopted by the city council of Las Vegas, a municipality in San Miguel County, but was not signed and is not enforced by its mayor. Historically, there has been little or no oil and gas production in Santa Fe, Mora or San Miguel counties.

To date, the proposal and enactment of local laws has not had a material effect on the amount of severance tax revenues collected by the State. While future actions by local governments relating to natural resource extraction is not predictable, litigation challenging any restrictive local enactments would be a likely consequence of such actions.

NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE

Natural Gas Reserves and Well Completions

Table 8 presents the U.S. Energy Information Administration (“EIA”) estimates of natural gas “proved reserves” in New Mexico over the years 2006 to 2015. This is the latest data available from the EIA. Proved reserves are estimates of recoverable volumes under existing economic and operating conditions. They represent the narrowest measurement of energy resources. EIA updates its estimates to reflect new information, new discoveries, and the production during the year. Increases due to revisions and new discoveries usually offset some or all of the decline due to current production.

New Mexico’s proved natural gas reserves were estimated to be 15,437 billion cubic feet (bcf) at the end of calendar year 2015, down from 19,104 bcf at the beginning of calendar year 2006. 2015 reserves decreased by 3,667 bcf since the beginning of 2006, and 2015 production was estimated to be 1,290 bcf. Additions through new discoveries and revised estimates have offset 71 percent of the production since 2006. The current reserve estimate represents a New Mexico reserve-to-current-production ratio of 12:1 years.

The “proven reserves-to-production” ratio is a measure analogous to inventory-to-production for manufacturers. It represents the known resources that could be developed at today’s prices. As is the case for other industries, oil and natural gas producers have to balance their need for adequate inventories with the cost of exploring and developing the reserves.

Replacement of reserves by new discoveries and further development of existing formations is a key component of the State’s long-term production forecast. New discoveries and further development are expected to offset much of future production. As a result, annual production is expected to decline only gradually. Over time, technological improvements like horizontal drilling, directional drilling, and hydraulic fracturing have advanced the discovery of new reserves and the production capability for reserves. Accounting rules in place for 2008 and prior years required companies to calculate proved reserves based on end-of-year prices. New accounting standards adopted by the Securities and Exchange Commission now require companies to use an annual average price. Reserves are the amounts companies expect with reasonable certainty can be produced with current technology at current prices. Therefore, if prices increase, all other things being equal, we would expect reserves to increase.

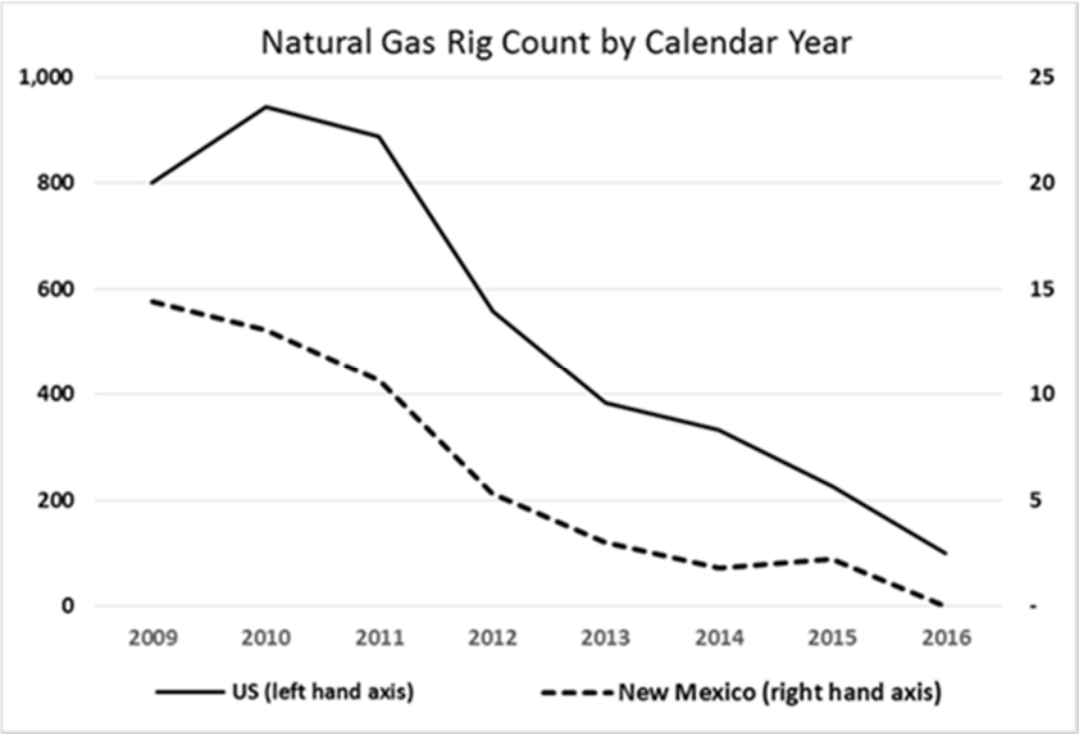
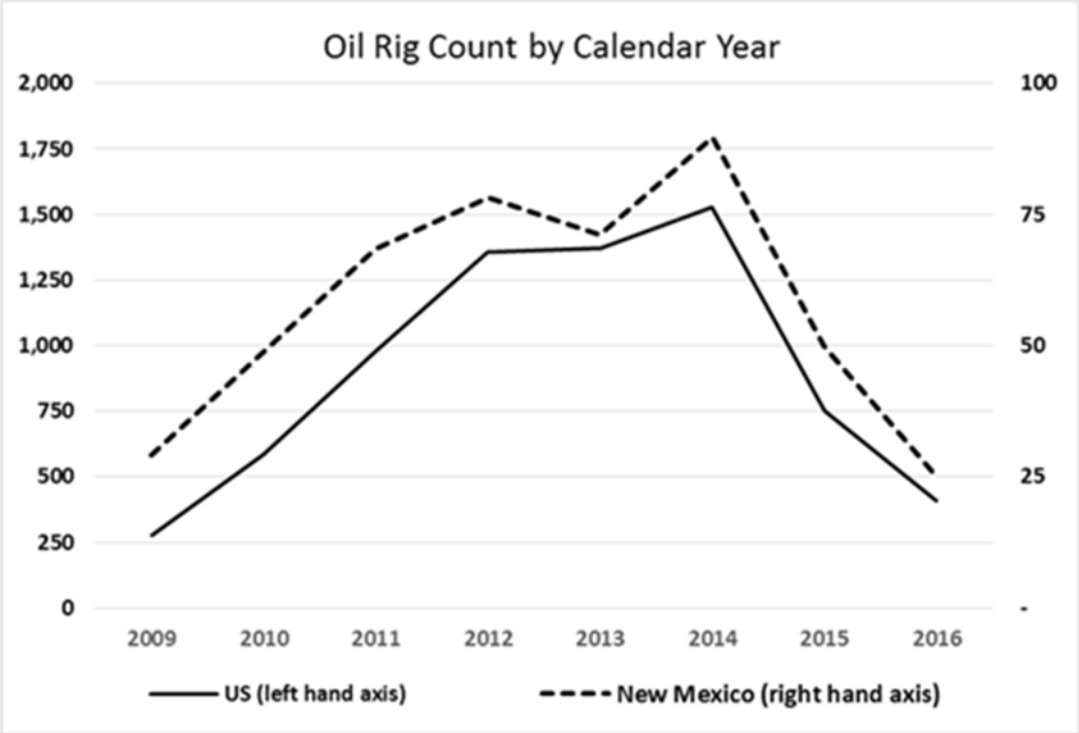
TABLE 8
New Mexico Natural Gas Reserves⁽¹⁾
(Natural Gas numbers in billion cubic feet)

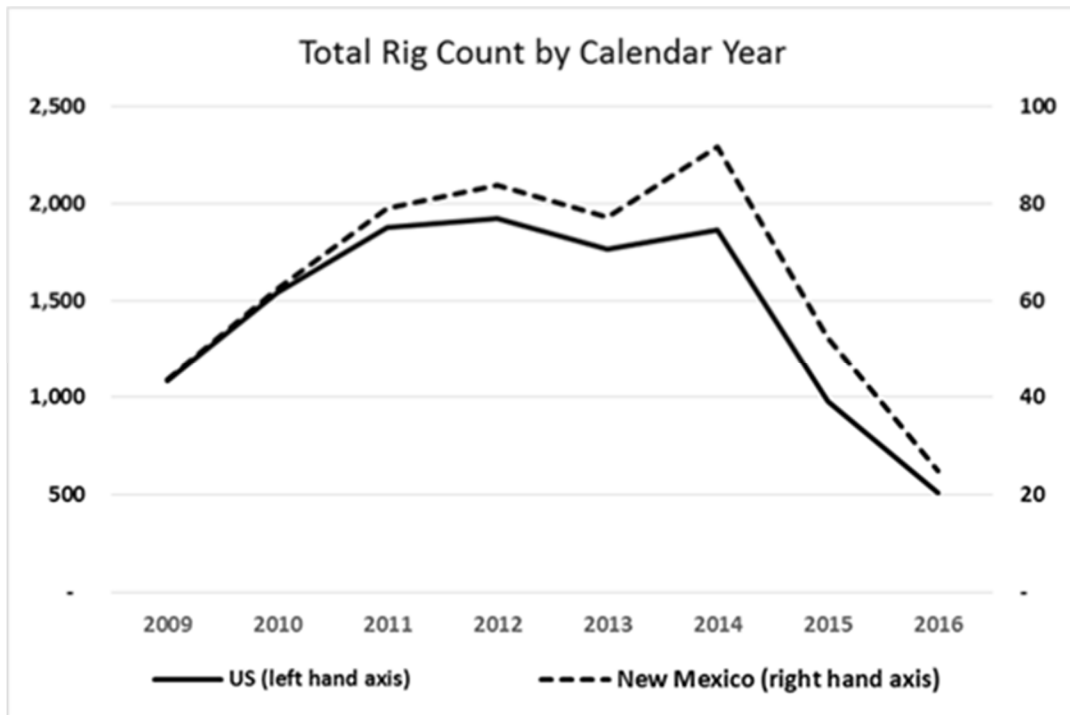
| Calendar Year | Beginning Reserves | Net Additions/ Adjustments | Estimated Production | Ending Reserves |
|----------------------|---------------------------|-----------------------------------|-----------------------------|------------------------|
| 2006 | 19,344 | 1,295 | 1,535 | 19,104 |
| 2007 | 19,104 | 757 | 1,464 | 18,397 |
| 2008 | 18,397 | 349 | 1,399 | 17,347 |
| 2009 | 17,347 | 644 | 1,347 | 16,644 |
| 2010 | 16,644 | 1,156 | 1,271 | 16,529 |
| 2011 | 16,529 | 833 | 1,224 | 16,138 |
| 2012 | 16,138 | -374 | 1,211 | 14,553 |
| 2013 | 14,553 | 1,175 | 1,161 | 14,567 |
| 2014 | 14,567 | 3,122 | 1,263 | 16,426 |
| 2015 | 16,426 | 301 | 1,290 | 15,437 |

⁽¹⁾ As measured by wet after lease separation. Wet after lease separation represents the volume of natural gas that is marketable after exclusion of pentanes, hydrocarbons and nonhydrocarbons. The presence of these chemicals renders natural gas unmarketable.

Source: Department of Finance and Administration, U.S. Energy Information Administration.

Information on oil and gas drilling activity published by the Baker Hughes Company is presented in the graphs below. Baker Hughes reports the number of drilling rigs actively exploring for oil and gas in the United States. Over the last decade, drilling activity in New Mexico has generally followed trends in the United States as a whole. Since 2006, drilling activity in the United States climbed steadily until the sharp decrease of energy prices in 2009. After the 2009 price drop, oil drilling rebounded strongly reaching new record levels near the end of 2014. Drilling activity once again decreased sharply with a short lag following the recent decline in oil prices. Recent increases in natural gas supply have caused a marked decline in drilling activity both nationally and in New Mexico. According to the Baker Hughes Company, there has been a significant shift from traditional vertical wells to horizontal wells in recent years. The use of horizontal drilling, combined with hydraulic fracturing, has increased production per well dramatically, albeit at a significant additional cost to drill.





Source: Department of Finance and Administration and Baker Hughes.

In 1999, following a joint venture between Sonat Raton and PennzEnergy Corporation for an extensive development program in the Raton Basin in northeastern New Mexico, annual production from the Raton Basin steadily increased until Fiscal Year 2006 when it leveled off at approximately 25.8 million cubic feet. In Fiscal Year 2016, the Raton Basin produced approximately 21.7 million cubic feet of natural gas. In Fiscal Year 2016, production from the Raton Basin was approximately 1.8 percent of total natural gas production in the State, the San Juan Basin produced 53.1 percent and the Permian Basin produced 45.1 percent. Natural gas production data for Fiscal Year 2017 were not available at the time of publication.

In May 2008, the New Mexico Oil Conservation Commission adopted new “pit rules” regulating the maintenance of open pits. Some industry representatives asserted that the increased costs associated with protecting the groundwater during oil and gas operations would have a negative effect on the number of drilling rigs working in New Mexico. In June 2013, the Oil Conservation Commission amended the pit rules relating to, among other things, waste pit permits, siting, design, construction and closures. The Commission stated that the amendments streamline and clarify the rules making it easier for oil and gas operators, especially small-scale operators, to comply. Both the 2008 and 2013 pit rule actions were appealed and both appeals were certified to the New Mexico Court of Appeals. On February 24, 2016, the Court of Appeals upheld the 2013 Commission rulemaking. The Court concluded that the Commission adequately explained the reasoning for the adoption of the rule and satisfied the legal requirements for notice. *Earthworks Oil & Gas Accountability Project v. New Mexico Oil Conservation Commission*, 2016-NMCA-055, (No. 33,451, Feb. 24, 2016), cert. denied, 2016-NMCERT-004 (No. 35,284, April 15, 2016).

Table 9 presents information on the number of natural gas well completions in New Mexico. Natural gas well completions have fallen from 1,483 in 2007 to 74 in 2016. In part this was a response to the sharp drop of natural gas prices in 2009. In addition, companies have shifted their attention to drilling oil wells because the relative value of oil compared with natural gas has increased dramatically in recent years.

TABLE 9
Number of Natural Gas Well
Completions by Calendar Year

| Calendar Year | Natural Gas Well Completions |
|--------------------------|---|
| 2007 | 1,483 |
| 2008 | 1,197 |
| 2009 | 860 |
| 2010 | 512 |
| 2011 | 528 |
| 2012 | 411 |
| 2013 | 252 |
| 2014 | 141 |
| 2015 | 106 |
| 2016 | 74 |

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division.

Natural Gas Markets

United States consumption of natural gas grew in all but one year between 1986 and 2002, reaching 23 trillion cubic feet (tcf) in calendar year 2002. From 2002 until 2006, total consumption remained flat despite the growing economy as consumers switched to lower cost alternatives. Beginning in 2006, U.S. consumption began to grow, reaching 27.5 tcf in 2016. Since the fall of natural gas prices in 2009, the relatively low price of natural gas has led power generators to substitute natural gas for coal to the greatest extent possible. Recent industry reports suggest that combined cycle power plants fueled by natural gas are now the lowest cost source of new electricity supplies.

According to the EIA, after peaking around 23.0 tcf in the mid-1970s, annual production of natural gas declined in response to falling prices to a low of 16.9 tcf in 1986. Since then production has increased steadily in response to rising prices and technological innovations that have lowered production costs. Total production was a new all-time high of 32.6 tcf in 2016 according to EIA.

The historic gap between domestic production and domestic consumption has been met by growing imports, which increased from 0.8 tcf in 1986 to 4.0 tcf in 2007, falling to 0.9 tcf in 2015 (the lowest level since 1987). Net imports have fallen sharply in recent years, as domestic production has expanded while domestic demand has grown more slowly.

Average annual natural gas values for the U.S. and New Mexico are presented in Table 10. The U.S. average references the spot price of natural gas at the Henry Hub pipeline terminal in Louisiana. This is the price typically reported in the national news media. Prices increased steadily from 2006 to 2008, but have fallen sharply since then. At the national level, the expansion of domestic supplies fueled by new technologies has been sufficient to offset any increase in production driven by the economic recovery.

TABLE 10
Henry Hub Spot vs New Mexico Average Wellhead Price by Fiscal Year
(\$ per thousand cubic feet)

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Henry Hub Spot Price | \$7.08 | \$8.55 | \$6.10 | \$4.37 | \$4.28 | \$3.14 | \$3.55 | \$4.44 | \$3.45 | \$2.32 |
| New Mexico Producers | \$6.56 | \$8.40 | \$5.61 | \$5.20 | \$5.50 | \$5.00 | \$4.37 | \$5.13 | \$3.78 | \$2.43 |
| NM as a percentage of Henry Hub | 92.7% | 98.2% | 92.0% | 119.0% | 128.5% | 159.2% | 123.1% | 115.5% | 109.6% | 104.3% |

Sources: Department of Finance and Administration (U.S. Energy Information Administration).

New Mexico average wellhead values have exceeded Henry Hub spot prices largely because the New Mexico average includes natural gas liquids, while Henry Hub prices represent “dry” gas only. Natural gas liquid products are used in refining, gasoline blends, home heating (propane) and a number of industrial applications such as the production of ethylene for plastics. As such, they are priced at a premium to dry gas and tend to track oil prices closely. New Mexico producers’ wellhead prices in Fiscal Year 2016 were \$2.43 per thousand cubic feet. Fiscal Year 2017 data were not available at the time of publication.

Natural Gas Production

Total natural gas production in New Mexico increased sharply in the early 1990s due to increased coal seam production in the San Juan Basin then steadily declined until 2011. Natural gas production from gas wells continued to decline at rates similar to the previous years; however beginning in 2012, much of the decline in natural gas production from gas wells was offset by associated natural gas production from new oil wells in the Permian Basin. In Fiscal Year 2016, production totaled 1,173 bcf. Gross sales revenue increased steadily through 2008 as the price of natural gas continued to increase, peaking at \$12 billion. Prices fell sharply in 2009 and have remained in the range of \$2.40 to \$5.50 since then, resulting in gross sales revenue of an estimated \$2.9 billion in Fiscal Year 2016. Taxable production volume, sales revenue, and average price per thousand cubic feet for Fiscal Years 2007 through 2016 are presented in the following table. Fiscal Year 2017 data were not available at the time of publication.

TABLE 11
Natural Gas Subject to Taxation
Production, Revenues and Average Price
Fiscal Years 2007-2016

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales Volume (bcf) | 1,516 | 1,428 | 1,390 | 1,282 | 1,224 | 1,229 | 1,173 | 1,186 | 1,185 | 1,173 |
| Gross Sales Revenues (millions) | \$9,935 | \$12,002 | \$7,797 | \$6,657 | \$6,805 | \$6,145 | \$5,177 | \$6,086 | \$4,436 | \$2,852 |
| Gross Average Price per mcf | \$6.56 | \$8.40 | \$5.61 | \$5.20 | \$5.50 | \$5.00 | \$4.37 | \$5.13 | \$3.78 | \$2.43 |
| Net Taxable Value ⁽¹⁾ (millions) | \$8,074 | \$9,700 | \$6,083 | \$5,098 | \$5,223 | \$4,689 | \$3,929 | \$4,707 | \$3,311 | \$1,934 |

⁽¹⁾ Data reflects estimates of revenue per product prior to adjustments for penalty, interest and other adjustments.
Source: Department of Finance and Administration (the “ONGARD System”).

The following table sets forth the production levels of the State's largest natural gas producers in calendar year 2016.

TABLE 12
Ten Largest Natural Gas Producers
in New Mexico and 2016 Production

| | Thousand Cubic Feet |
|---|--------------------------------|
| Burlington Resources Oil & Gas Company LP | 217,758,857 |
| ConocoPhillips Company | 129,535,456 |
| COG Operating LLC | 84,704,286 |
| BP America Production Company | 83,430,858 |
| Devon Energy Production Company, LP | 66,620,050 |
| WPX Energy Production, LLC | 50,773,920 |
| XTO Energy, Inc. | 44,704,455 |
| Chevron U S A Inc. | 44,019,410 |
| Mewbourne Oil Company | 40,295,354 |
| Southland Royalty Company LLC | 38,539,990 |

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division.

Severance Taxes on Natural Gas

Severance taxes are levied by State statute on the sale or transport out of state of natural gas produced in the State. State taxation of minerals production for the General Fund began as early as 1933. The Severance Tax Bonding Act earmarked a portion of the existing severance tax to pay debt service on severance tax bonds, with remaining revenues previously going to the General Fund. The severance tax at that time was 2.5 percent of the marketable sales value, with deductions allowed for royalties to governments and for certain processing and transportation expenses. Beginning in 1973, the Severance Tax Permanent Fund was created, receiving excess severance tax revenues not required for debt service payments.

The tax rate was increased to 3.75 percent of value in 1974. Beginning in 1977, the tax rate was converted to a per unit basis, \$0.05 per mcf of natural gas, with a deduction allowed for royalties to governments. A surtax was added, equal to the base tax rate times the percentage increase in the Consumer Price Index (CPI) from the base year. This surtax rate was updated annually. The base tax rate was increased to \$0.087 per mcf in 1980, and the surtax provision continued to apply.

By July 1, 1986 the surtax had reached \$0.076 and the total tax rate was \$0.163 per mcf. With the sharp decline in wellhead natural gas prices in 1986, the effective severance tax rate was over 8 percent of gross sales value. The combined effective tax rate on natural gas production, including General Fund taxes, was over 11 percent, significantly higher than in neighboring natural gas-producing states. The 1987 Legislature responded to declining prices by converting the tax to 3.75 percent of value on a phased in basis. Beginning July 1, 1990, the new tax rate applied to all production.

In 1995, lower severance tax rates for certain categories of production were enacted. A 10-year exemption from Severance Taxes was provided for production from previously non-producing wells ("restoration"). A 50 percent rate reduction was provided for incremental production from a qualifying work over project ("recompletion").

In response to sharply lower oil prices and declining production of oil and associated natural gas, new severance tax incentives for production from recompletion wells and stripper wells were enacted in 1999. For natural gas, a stripper well is defined as one having average daily production of less than 60,000 cubic feet per day. For oil wells, the threshold is 10 barrels per day. Instead of a 50 percent rate reduction (from 3.75 percent to 1.875 percent) for the incremental production from recompletion wells, a tax rate of 2.45 percent was applied to all production from qualified wells. For stripper well production, the 1999 legislation introduced a sliding scale of applicable tax rates, depending on the prevailing taxable value of products.

The following table summarizes incentive tax rates applied to various categories of oil and natural gas production in New Mexico as of Fiscal Year 2017. Although the State offers reduced severance tax rates for several categories of production, prices are expected to be above the statutory price threshold through the forecast period, so none of these incentives are assumed to apply. Should prices decline in the future, some of these incentives may become applicable again.

TABLE 13
Oil and Natural Gas Tax Incentive Programs

| <u>Incentive Category</u> | <u>Incentive Tax Rate</u> | <u>Threshold Price Below Which Incentive Rate Applies</u> | <u>Qualified Production As a Percent of Fiscal Year 2017 Total</u> |
|--------------------------------|---------------------------|--|--|
| Production Restoration Project | 0.0000% ⁽¹⁾ | \$24.00 per barrel ⁽²⁾ \$24.00 per barrel ⁽²⁾ | 0.0% Oil ⁽⁴⁾ 0.0% Natural Gas ⁽⁴⁾ |
| Well workover wells | 2.4500% | \$24.00 per barrel ⁽²⁾ \$24.00 per barrel ⁽²⁾ | 0.0% Oil ⁽⁴⁾ 0.0% Natural Gas ⁽⁴⁾ |
| Stripper wells | 1.8750% | \$1.15 per mcf-Gas ⁽³⁾ \$15.00 per barrel-Oil ⁽³⁾ | 0.0% Natural Gas ⁽⁴⁾ 0.0% Oil ⁽⁴⁾ |
| | 2.8125% | \$1.35 per mcf-Gas ⁽³⁾ \$18.00 per barrel-Oil ⁽²⁾ | 0.0% Natural Gas ⁽⁴⁾ 0.0% Oil ⁽⁴⁾ |
| Enhanced oil recovery | 1.8750% | \$28.00 per barrel ⁽²⁾ | 0.0% Oil ⁽⁴⁾ |

⁽¹⁾ The incentive rate applies for 10 years after the restoration project is completed. Each year's production is tested against the threshold price.

⁽²⁾ Twelve-month average price for West Texas Intermediate crude oil as reported on Oil Postings for last day of each month.

⁽³⁾ Average annual taxable value of natural gas or oil sold in New Mexico during the preceding calendar year.

⁽⁴⁾ No oil or natural gas volumes are expected to qualify for these incentives during the period because average taxable value exceeds the threshold levels.

Source: NMSA 1978, Sections 7-29-4(A), (B) (2005).

Projections of Severance Tax Revenues from Natural Gas

The natural gas price outlook is prepared by the DFA using analysis by the Consensus Group, as well as forecasts by the U.S. Energy Information Administration, Moody's Analytics economic forecasting services, and public information about NYMEX futures contracts.

For Fiscal Year 2016, New Mexico producers received an average price of \$2.43 per mcf, down from \$3.78 in Fiscal Year 2015. In the December 2016 severance tax revenue forecast, the DFA assumed an average price for Fiscal Year 2017 of \$2.95 per mcf and \$3.20 per mcf for Fiscal Year 2018. Continued oversupply of natural gas has depressed prices nationally. Prices are expected to remain at \$3.20 per mcf in Fiscal Year 2019 and Fiscal Year 2020 with a slight increase to \$3.25 and \$3.30 per mcf for Fiscal Years 2021 and 2022. The forecast of gradual price increases is based on increased demand

with national economic growth and increased export of liquefied natural gas (LNG), as well as decreased supply as low prices curtail natural gas drilling activity nationally. In addition, some fuel-switching to natural gas is expected as natural gas-fired power plants become the preferred source for new electricity generation facilities due to environmental concerns with alternative power sources. These prices reflect the full value of all natural gas products, including natural gas liquids.

Natural gas volume production decreased slightly in Fiscal Year 2016 to 1,173 bcf as compared to 1,185 bcf in Fiscal Year 2015. In December 2016, the DFA’s severance tax revenue forecast assumed that natural gas production would decline by approximately 3.4 percent in Fiscal Year 2017, by 3.1 percent in Fiscal Year 2018 through Fiscal Year 2021, and by 1.5 percent in Fiscal Year 2022. Final price and volume data for Fiscal Year 2017 were not available at the time of publication.

The severance tax base for natural gas is defined as the wellhead value less deductions for the expense of processing and transporting product to the first point of sale. In addition, deductions are allowed for royalties paid to governmental entities (federal, state and tribal). Over the past 10 years, deductions have ranged from 18.7 percent of gross value in Fiscal Year 2007 to 32.6 percent in Fiscal Year 2016. For the August 2016 severance tax revenue forecast, the DFA assumed deductions of 28.0 percent in Fiscal Year 2017 and 25.0 percent for Fiscal Years 2018 and later consistent with the average deduction percentage since Fiscal Year 2010. Despite the decline in natural gas drilling, natural gas production continues from pre-existing gas wells and as associated gas from oil wells, albeit at a decreasing rate. Overall New Mexico severance tax revenues have increasingly been driven by oil instead of natural gas. In fact, in Fiscal Year 2016, oil production constituted an estimated 71 percent of total taxable value, an increase from 28 percent in Fiscal Year 2007. Fiscal Year 2017 taxable value was not available at the time of publication.

In Fiscal Year 2017, preliminary Bonding Fund revenues from natural gas were \$96.7 million, net of the Intergovernmental Production Tax Credit. This amount includes \$2 million in severance tax from carbon dioxide production. The table below sets forth the DFA’s five-year projection for natural gas volume, price, and severance tax receipts for Fiscal Years 2018 through 2022.

TABLE 14
New Mexico Natural Gas Volume, Price and Severance Tax Projections
Fiscal Years Ending June 30

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Natural gas sales (bcf) | 1,105 | 1,070 | 1,037 | 1,005 | 990 |
| Average sales price (\$ per mcf) | \$3.20 | \$3.20 | \$3.20 | \$3.25 | \$3.30 |
| Severance Taxes on Natural Gas (in thousands) | \$94,117 | \$91,199 | \$88,372 | \$87,262 | \$87,566 |

Source: New Mexico Department of Finance and Administration.

OIL PRODUCTION AND SEVERANCE TAX REVENUE

Oil Reserves and Production

The table below presents the EIA’s estimate of oil “proven reserves” from 2006 to 2015. This is the latest data available from the EIA. Proved reserves are those a company believes with reasonable certainty can be produced with current technology at current prices. They represent the narrowest measurement of the country’s energy resources. Each year the EIA updates its estimates to reflect new information, new discoveries and production during the year. The EIA reports on proven reserves of

crude oil in the State on the basis of company surveys. Accounting rules in place for 2008 and prior years required companies to calculate proved reserves based on end-of-year prices. New accounting standards adopted by the Securities and Exchange Commission will now require companies to use an annual average price.

Production remained relatively flat at approximately 60 million barrels beginning in 2006 and continuing through 2008. Beginning in 2009, production began to increase steadily, reaching a new high of 143 million barrels in 2015. In 2015, New Mexico reserves represented approximately 10.4 years of production. This is the latest EIA data available. This “proven reserves-to-production” ratio is a measure analogous to inventory-to-production for manufacturers. It represents the known resources that could be developed at 2015 prices. As is the case for other industries, oil producers have to balance their need for adequate inventories with the cost of exploring and developing the reserves.

TABLE 15
New Mexico Oil Reserves
Crude Oil ⁽¹⁾

| <u>Year</u> | <u>Beginning Reserves</u> | <u>Additions/ Adjustments</u> | <u>Estimated Production</u> | <u>Ending Reserves</u> |
|-------------|---------------------------|-------------------------------|-----------------------------|------------------------|
| 2006 | 690 | 75 | 60 | 705 |
| 2007 | 705 | 90 | 60 | 735 |
| 2008 | 735 | -20 | 61 | 654 |
| 2009 | 654 | 99 | 53 | 700 |
| 2010 | 700 | 181 | 58 | 823 |
| 2011 | 823 | 107 | 64 | 866 |
| 2012 | 866 | 175 | 76 | 965 |
| 2013 | 965 | 297 | 91 | 1,171 |
| 2014 | 1,171 | 421 | 116 | 1,476 |
| 2015 | 1,476 | 153 | 143 | 1,486 |

⁽¹⁾ Barrels in millions.

Source: Department of Finance and Administration (U.S. Energy Information Administration)

Potential new development of oil resources is indicated by exploration and drilling activity. Secondary or tertiary recovery projects (water or carbon dioxide injection) typically require new development wells. Table 16 presents oil well completions during the period 2007 through 2016. There has been a significant increase in oil well completion activity in recent years. This reflects the successful application of horizontal drilling and hydraulic fracturing in the Permian Basin located in the southeastern corner of the state. This activity has resulted in the increased production levels recorded in the last two fiscal years.

TABLE 16
Number of Oil Well Completions by
Calendar Year

| Calendar Year | Well Completions |
|--------------------------|-----------------------------|
| 2007 | 923 |
| 2008 | 1,289 |
| 2009 | 1,055 |
| 2010 | 1,404 |
| 2011 | 1,595 |
| 2012 | 1,442 |
| 2013 | 1,386 |
| 2014 | 1,334 |
| 2015 | 843 |
| 2016 | 441 |

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division.

The following table sets forth the production levels of the largest oil producers in the State in calendar year 2016.

TABLE 17
Ten Largest Oil Producers in New Mexico and 2016 Production

| | Barrels |
|-------------------------------------|----------------|
| COG Operating LLC | 22,964,499 |
| Devon Energy Production Company, LP | 16,569,734 |
| EOG Resources Inc. | 10,681,940 |
| Apache Corp. | 9,075,647 |
| Mewbourne Oil Co | 8,790,567 |
| Chevron U S A Inc. | 7,442,793 |
| OXY USA Inc. | 5,947,607 |
| BOPCO, L.P. | 4,599,576 |
| COG Production, LLC | 4,239,448 |
| Occidental Permian Ltd | 3,995,745 |

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division.

Severance Taxes on Oil

Severance taxes are levied on oil on the basis of sales value at the time of either sale or transportation from the State. Information on oil sales occurring in the last ten Fiscal Years are presented in the following table.

TABLE 18
Oil Subject to Taxation
Production, Revenues and Average Prices
Fiscal Years 2007-2016

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|
| Sales Volume (bbl in millions) | 60.1 | 60.0 | 62.3 | 62.9 | 67.0 | 79.7 | 93.8 | 113.5 | 141.4 | 146.6 |
| Gross Sales Revenues (millions) | \$3,553 | \$5,628 | \$4,037 | \$4,470 | \$5,547 | \$7,144 | \$8,047 | \$10,795 | \$8,580 | \$5,562 |
| Gross Average Price per bbl | \$59.11 | \$93.74 | \$64.84 | \$71.29 | \$84.20 | \$89.64 | \$85.82 | \$95.13 | \$60.67 | \$37.94 |
| Net Taxable Value ⁽¹⁾ (millions) | \$3,189 | \$5,049 | \$3,618 | \$4,007 | \$4,958 | \$6,380 | \$7,211 | \$9,580 | \$7,566 | \$4,898 |

⁽¹⁾ Data reflects estimates of revenue per product prior to adjustments for penalty, interest and other adjustments.
Source: Department of Finance and Administration (the "ONGARD System").

The severance tax rate on oil was increased to 3.75 percent of sales value in 1974. Beginning in 1977, the rate was converted to \$0.45 per barrel, with a surtax indexed to the CPI. In 1980, the tax rate was converted back to 3.75 percent of value.

In 1992, a 50 percent reduction of the severance tax rate applied to oil produced through enhanced recovery methods was enacted. Enhanced methods include carbon dioxide miscible fluid displacement, water flood, pressure maintenance and thermal methods. The reduced rate applies to all production from an enhanced recovery project following certification of a positive production response by EMNRD's Oil Conservation Division.

In 1995, lower severance tax rates for certain categories of production were enacted. A 10-year exemption from severance tax was provided for production from previously non-producing wells ("restoration"). A 50 percent rate reduction was provided for incremental production from a qualifying work over project ("recompletion"). In 1999, the incentive program was expanded to include recompletion wells and a new incentive for stripper wells was enacted. Presently, no production qualifies for the incentive rates because the price of oil is above the statutory price threshold. The December 2016 severance tax revenue forecast by the DFA assumes that the incentives will not apply through Fiscal Year 2022.

Projections of Severance Tax Revenues from Oil

Volume of Production: The natural rate of production decline from an oil field, absent application of enhanced recovery methods ("EOR"), additional drilling for exploration and development, or the use of new technologies, such as hydraulic fracturing and horizontal drilling, is usually estimated at 10 percent per year. During most of the 1990s, producers prevented a decline in total production through a combination of new well drilling, well maintenance activity and EOR investment. Production has increased in recent years, due to new technologies that facilitate access to oil deposits in tight shale, reaching 146.6 million barrels in Fiscal Year 2016. The DFA's December 2016 volume projection includes a decrease in annual production of 4.5 percent for Fiscal Year 2017 to 140 million barrels, and flat production volume of 140 million barrels for Fiscal Years 2018 through 2022.

Prices: Over the past ten fiscal years weighted average annual oil prices received by New Mexico producers have ranged from an estimated \$37.94 in Fiscal Year 2016 to a high of \$95.13 in Fiscal Year 2014. The Severance Tax revenue forecast by the DFA in December 2016 assumes a price per barrel of \$42.00 in Fiscal Year 2017, \$47.00 in Fiscal Year 2018, \$50.00 in Fiscal Year 2019, and \$52.00 in Fiscal Year 2020, and \$54.00 and \$55.00 in Fiscal Years 2021 and 2022, respectively. These Fiscal Year price forecasts reflect sales prices from April through March due to a lag in distribution of revenues to the Bonding Fund. Like natural gas, certain deductions for transportation and royalties are available for oil producers. The deduction percentage has averaged close to 12 percent in recent years, which is the

assumed rate in the DFA’s severance tax revenue forecast. Final price and volume data for Fiscal Year 2017 were not available at the time of publication.

Revenues: In Fiscal Year 2017, Bonding Fund preliminary revenues from oil were \$215.3 million, net of the Intergovernmental Production Tax Credit. The table below sets forth the DFA’s five-year projection for oil volume, price, and severance tax receipts for Fiscal Years 2018 through 2022. The forecasts are also net of the Intergovernmental Production Tax Credit.

TABLE 19
New Mexico Oil Volume, Price and Severance Tax Projections
Fiscal Years Ending June 30

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Oil sales (million barrels) | 140.0 | 140.0 | 140.0 | 140.0 | 140.0 |
| Average price (\$/barrel) | \$47.00 | \$50.00 | \$52.00 | \$54.00 | \$55.00 |
| Severance Taxes on Oil (in thousands) | \$217,140 | \$231,000 | \$240,240 | \$249,480 | \$254,100 |

Source: New Mexico Department of Finance and Administration.

COAL PRODUCTION AND SEVERANCE TAX REVENUE

Coal Reserves and Production

The State’s main coal-bearing strata are the Mesa Verde and Fruitland Formations in the San Juan Basin and the Raton and Vermejo Formations in the Raton area. Currently, all coal is being produced in the San Juan Basin. The quality of coal located in the State ranges from high-heat content bituminous coal to lower rank sub-bituminous coal. Coal found in the State is relatively low in sulfur content, ranging from 0.5 to 1.1 percent, compared to the national average of 1 to 2 percent. The State’s coal varies widely in ash and moisture content. The majority of New Mexico coal is used for electrical generation.

According to the EIA, the State had the following estimated recoverable reserves in calendar year 2015: 2,743 million short tons of underground coal and 4,035 million short tons of surface coal for a total of 6,778 million short tons. Estimated recoverable reserves include the coal in the demonstrated reserve base considered recoverable after excluding coal estimated to be unavailable due to land use restrictions or currently economically unattractive for mining, and after applying assumed mining recovery rates. The State had the following demonstrated reserve base in calendar year 2015: 6,030 million short tons of underground coal and 5,766 million short tons of surface coal for a total of 11,796 million short tons. The demonstrated reserve base includes publicly available data on coal mapped to measured and indicated degrees of accuracy and found at depths and in coal bed thicknesses considered technologically minable at the time of determinations.

During Fiscal Year 2016, there were three mining companies producing coal in New Mexico: El Segundo Coal Company, LLC; Lee Ranch Coal Company; and San Juan Coal Company. The San Juan Coal Company is owned by Westmoreland San Juan, LLC, a subsidiary of Westmoreland Coal Company. The El Segundo Coal Company and the Lee Ranch Coal Company are operated by Peabody Natural Resources, a subsidiary of Peabody Energy Corporation. In December 2013, a fourth mine, the BHP Navajo Mine, was sold by BHP Billiton, the parent company of BHP Navajo Coal Company, to the Navajo Transitional Energy Company (NTEC) a Navajo Nation-owned company established for the purpose of acquiring the Navajo Mine. Output from the Navajo Coal Company was 8.5 million tons in Fiscal Year 2013, the last full fiscal year prior to the sale of the mine.

The El Segundo Coal Company and the Lee Ranch Coal Company are owned by Peabody Natural Resources, which has acquired contracts to produce coal in mines formerly operated by Chevron. Output from the Lee Ranch Coal Company was an estimated 0.1 million tons in Fiscal Year 2016, down 58 percent from Fiscal Year 2015. In Fiscal Year 2016, the El Segundo Coal Company produced an estimated 6.4 million tons of coal, down 21 percent from Fiscal Year 2015. Since the El Segundo Coal Company commenced operations in June 2008, Peabody Natural Resources has been preferentially pulling coal out of the El Segundo Mine, which partially explains why production from the Lee Ranch Coal Company has decreased significantly since Fiscal Year 2008 when it produced 5.4 million tons.

On April 13, 2016, Peabody Energy Corporation (and various affiliates and subsidiaries, including Peabody Natural Resources) filed a Voluntary Petition with the U.S. Bankruptcy Court under Chapter 11 of the U.S. Bankruptcy Code. See *In re Peabody Energy Corp.*, (No. 16-42529, U.S. Bankruptcy Ct., E.D. Mo.). On March 17, 2017, the Bankruptcy Court confirmed the Debtors' Plan of Reorganization and Peabody Energy emerged from bankruptcy. The operations of the Lee Ranch and El Segundo Mines were not impacted by the filing. Peabody Energy has updated its financial assurance for the mines by replacing the self-bonds with surety bonds.

Currently, the El Segundo Coal Company has long-term coal agreements with Arizona Public Service Company and Tucson Electric Power. Arizona Electric Power Cooperative and Western Fuel Association are supplied coal under shorter-term contracts. Lee Ranch Mine supplies coal to Western Fuels Association and Tucson Electric Power under longer-term contracts. Other customers include Arizona Public Service and Arizona Electric Power Cooperative. At the time that the El Segundo Mine commenced operations, the Tucson Electric Power Company expected to take 3 million tons per year for 20 years for its Springerville Generating Station and Arizona Public Service Company expected to take as much as 4 million tons of coal per year for 19 years for its Cholla Generating Station in eastern Arizona.

All of the coal produced by San Juan Coal Company goes to the San Juan Generating Station, which is also a mine-mouth power plant owned by the Public Service Company of New Mexico and other utilities. Output from the San Juan Coal Company was an estimated 5.6 million tons in Fiscal Year 2016, down 1 percent from Fiscal Year 2015. Westmoreland San Juan, LLC of Englewood Colorado assumed operations of the San Juan Mine from BHP Billiton Marketing Inc. on February 1, 2016. At the same time, Public Service Company of New Mexico announced an agreement with Westmoreland Coal Company to extend the San Juan Mine coal supply contract for the San Juan Generating Station from 2017 to 2022. In November 2016, Westmoreland Coal Company reported that the San Juan acquisition continues to exceed expectations.

In 2013, WildEarth Guardians filed suit against the U.S. Office of Surface Mining, Reclamation and Enforcement ("OSM") claiming that OSM improperly approved mining plans for the mining of federally owned coal at several western coal mines, including the San Juan Mine in New Mexico. The suit was filed in the U.S. District Court for Colorado. The claims relating to the San Juan Mine were severed and transferred to the U.S. District Court for New Mexico and in March 2014, WildEarth Guardians filed an Amended Petition for Review in that court limiting its claims to the San Juan Mine. The suit claims that OSM violated the National Environmental Policy Act ("NEPA") in its 2008 approval of a mining plan modification by failing to provide public notice and participation and failing to take a hard look at the impacts of mining on air and water quality. The WildEarth Guardians case concluded in August of 2016 with an order remanding the matter to OSM to conduct further environmental analysis under NEPA and complete an environmental impact statement within three years of the order.

In December 2015, New Mexico's Public Regulation Commission approved by a 4-1 vote a plan to reduce air emissions at the San Juan Generating Station in compliance with federal requirements under the Clean Air Act. The plan includes the installation of additional emission control technology at two coal

fired generating units, the retirement of two other coal fired generating units by year end 2017 and the construction of a natural gas power generator. The Public Service Company of New Mexico has received approval from the New Mexico Public Regulation Commission to decommission the two coal fired generating units. Nuclear power from the Palo Verde Generating Station in Arizona will provide energy to make up for the loss from the two retired coal units.

Severance Tax Revenue on Coal

Coal production in New Mexico is subject to a severance tax and a severance surtax. The severance tax is set at a fixed rate of \$0.57 per ton of surface coal and \$0.55 per ton of underground coal. The surtax increases each year based on increases in the Consumer Price Index. However, statutory exemptions to the surtax have resulted in an increasingly smaller portion of the coal production being subject to the surtax.

Table 20 sets forth data on coal production, prices, revenues and average tax rates for the past five fiscal years. The recent decline in sales volume was caused by the purchase of the Navajo Mine by the Navajo Nation. A few months prior to the sale, TRD had already reported lower volumes, which may have been a reflection of the declining trend in recent years. The decrease of the Intergovernmental Tax Credit for coal to \$0 in Fiscal Year 2015 and Fiscal Year 2016 also coincides with the purchase of the Navajo Mine by the Navajo Nation.

As reflected in the table, gross average prices have ranged from a low of \$33.65 per ton in Fiscal Year 2012 to a high of \$38.13 per ton in Fiscal Year 2015. Output in short tons over the same period has ranged from a low of 12.1 million in Fiscal Year 2016 to a high of 23.0 million in Fiscal Year 2012. Total coal sales are expected to decline gradually due to increased competition from other electricity sources and environmental concerns. An increasing portion of total sales is expected to be eligible for the surtax exemption. A total of approximately \$650,000 in severance surtax was collected in Fiscal Year 2015 and \$0 in Fiscal Year 2016.

The surtax rate for surface-mined coal in Fiscal Year 2012 was \$1.17 per ton and \$1.13 per ton for coal mined underground; in Fiscal Year 2013, the surface-mined tax rate was \$1.27 and the underground-mined tax rate was \$1.23 per ton. In Fiscal Year 2014, the surface-mined surtax rate was \$1.30 per short ton and the underground-mined surtax rate was \$1.26. In Fiscal Year 2015, the surface-mined surtax rate was \$1.28 per short ton and the underground-mined surtax rates was \$1.23. These rates remained unchanged in Fiscal Year 2016 and Fiscal Year 2017. In the last five years, all coal mined underground has always met exemptions from the surtax.

After a number of years of stable revenues, 2011 marked a significant decrease of coal severance tax from \$23.3 million in Fiscal Year 2010 to \$15.7 million in Fiscal Year 2011. This decrease was caused by renegotiation of several long term mine-mouth contracts. Coal sold and delivered under the new contracts is exempt from the coal surtax. Revenues continued to fall in Fiscal Year 2016 and severance tax collections fell to an estimated \$6.8 million in Fiscal Year 2016.

TABLE 20
Coal Production, Prices, Revenues, and Taxes
Fiscal Years 2012 to 2016⁽¹⁾

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|---------------|---------------|---------------|---------------|---------------|
| Production: | | | | | |
| Total Sales Volume (tons) | 23,024,642 | 22,634,537 | 18,466,917 | 14,019,573 | 12,124,191 |
| Surface Mined Surtax Exempt | 16,413,332 | 15,880,674 | 11,366,169 | 7,974,724 | 6,501,537 |
| Surface Mined Non-Exempt | 533,727 | 893,391 | 832,843 | 351,397 | 0 |
| Underground Mined Surtax Exempt | 6,077,582 | 5,860,472 | 6,267,905 | 5,693,451 | 5,622,653 |
| Prices: | | | | | |
| Weighted Average Price per Ton for All Coal | \$33.65 | \$34.11 | \$35.47 | \$38.13 | \$33.83 |
| Sales Revenue: | | | | | |
| Total Sales Revenue | \$774,782,796 | \$772,134,654 | \$654,998,911 | \$534,625,847 | \$410,140,009 |
| Taxes Collected and Intergovernmental Tax Credits (ITC): | | | | | |
| Gross Severance Tax and Severance Surtax Due | \$13,626,955 | \$13,919,087 | \$11,483,480 | \$8,327,076 | \$6,798,336 |
| Intergovernmental Tax Credit (ITC) | \$ 2,747,567 | \$ 3,411,207 | \$ 1,411,374 | \$0 | \$0 |
| Net Severance Tax and Severance Surtax Liability (Net of ITC) | \$10,879,388 | \$10,507,880 | \$10,072,106 | \$8,327,076 | \$6,798,336 |
| Effective Taxes (Net of ITC): | | | | | |
| Effective Tax Rate | 1.40% | 1.36% | 1.54% | 1.56% | 1.66% |
| Effective Tax per Ton for all Coal (Net of ITC) | \$0.47 | \$0.46 | \$0.55 | \$0.59 | \$0.56 |

⁽¹⁾ Totals may not sum due to rounding.

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the "GenTax System").

OTHER MINERAL PRODUCTION AND SEVERANCE TAXES

Carbon Dioxide

The Bravo Dome CO₂ field encompasses 1.2 million acres in Harding, Union and Quay Counties in the northeastern area of the State. It contains estimated resources of 16.3 trillion cubic feet ("tcf"), of which 7.0 tcf to 10.6 tcf are considered economically recoverable. Although the State has long produced limited quantities of liquid and solid CO₂ for use in the food and the engineering industries, the main commercial value of CO₂ deposits is derived from the use of the product in its gaseous form in enhanced oil recovery projects in the Permian Basin of Texas and New Mexico. Future sales ultimately will depend on the CO₂ requirements of such projects and on the State's proportion of the market, which is shared with Colorado's Sheep Mountain and Little Sheep Mountain, McElmo Dome and Doe Creek Fields. Sales of CO₂ were approximately 95.4 bcf in Fiscal Year 2016, a decrease of 9.3 percent from 105.2 bcf in Fiscal Year 2015. The weighted average wellhead price of CO₂ sales for Fiscal Year 2016 was \$0.90 per mcf reported at the production facility, a decrease of 0.32 cents from \$1.22 per mcf during Fiscal Year 2015. Severance Taxes on CO₂ are levied at the rate of 3.75 percent of taxable sales value. Weighted average deductions were 38.3 percent in Fiscal Year 2016.

Other Minerals

Many other minerals and natural resources are taxed in the State upon their severance from the earth or, in some cases, their sale or shipment. Existing tax rates are listed in Table 21. In many cases, flat percentage deductions are allowed to account for certain production costs. The result is that the gross value is a percentage of the "full value." The "full value," in turn, is sometimes based upon published prices rather than actual revenues. Generally, for products with a price at the point of production, value is that price less deductions allowed for actual costs for hoisting, loading, and crushing of up to 50 percent

of price. For products that must be processed before sale, deductions are allowed for cost of processing and freight charges to the point of sale. Several exceptions apply, as detailed below.

For potash, the gross value is 40 percent of the posted field or market price, less those actual expenses of hoisting, crushing and loading necessary to place the severed product in marketable form and at a marketable price but allowable deductions may not exceed 50 percent. The gross value for each type of potash and potash product requiring processing or beneficiation (other than sizing) is 33.33 percent of the proceeds realized from the sale of muriate of potash and sulphate of potash magnesia, as standard grades, and 33.33 percent of the value of such products consumed in the production of other potash products, less 50 percent of such reported value as a deduction for expenses of hoisting, loading, crushing, processing, and beneficiation.

Gross values for copper, lead and zinc, gold, and silver are 66.66 percent of specified Comex, London Metal Exchange cash price, London Metal Exchange Final, and London spot, U.S. Equivalent, respectively, as published in Metals Week. The gross value for gold is the sales value established from published price data of the quantity of gold recoverable from the concentrate or other product which is sold or is shipped, transmitted or transported out of New Mexico without sale. The gross value for silver is 80 percent of the sales value established from published price data of the quantity of silver recoverable from the concentrate or other product which is sold or is shipped, transmitted or transported out of New Mexico without sale. For molybdenum, gross value is the value of molybdenum contained in concentrates shipped or sold from a mine site, but in no event shall it be less than market value. For copper, lead, zinc, gold, silver and molybdenum, deductions of 50 percent of the sales value are allowed for the expenses of hoisting, loading, crushing, processing and beneficiation, regardless of actual expenses incurred.

For sand and gravel, in the absence of substantial evidence of a different posted field or market price, it is presumed that the gross value is \$1.75 per ton. In the absence of evidence of lower deductible expenses the maximum 50 percent deduction will be allowed. In determining taxable value, rent and royalty payments to the federal government or the State government are deductible from gross value.

TABLE 21
Severance Tax Rates on Other Minerals

| Mineral Resources | Fiscal Year 2015⁽¹⁾ Collections | Fiscal Year 2016⁽¹⁾ Collections | Tax Rate | Gross Value as Percent of Full Value |
|---|---|---|-----------------|---|
| Potash | \$1,399,122 | \$1,058,559 | 2.500% | not fixed |
| Copper | \$916,173 | \$743,290 | 0.500% | 16.67% |
| Timber, Pumice, Gypsum, Clay, Fluorspar, Other | \$64,038 | \$62,994 | 0.125% | not fixed |
| Molybdenum ⁽³⁾ | \$0 | \$0 | 0.125% | 50.00% |
| Lead, Zinc | \$0 | \$0 | 0.125% | 16.67% |
| Gold | \$16,991 | \$26,931 | 0.200% | 50.00% |
| Silver | \$700 | \$784 | 0.200% | 30.00% |
| Uranium | Not detailed | Not detailed | 3.500% | 50.00% ⁽²⁾ |

⁽¹⁾ Collections for Fiscal Years 2015 and 2016 are the most recent data available.

⁽²⁾ Taxable Value as a Percentage of Full Value.

⁽³⁾ In June 2014, Chevron Mining closed its Questa molybdenum mine in Taos County, reducing total molybdenum collections to zero in Fiscal Years 2015 and 2016.

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office.

Severance tax revenue from potash was an estimated \$1.1 million in Fiscal Year 2016, a decrease of approximately 24.4 percent from Fiscal year 2015. Severance tax revenue from copper, which is limited because of the statutorily defined narrow tax base, was \$743,290 in Fiscal Year 2016, down from \$916,173 in Fiscal Year 2015. The average price of copper was \$2.208 per pound in Fiscal Year 2016.

OTHER TAXES OF NATURAL RESOURCES NOT PLEDGED

Rates for unpledged production and property taxes on New Mexico natural resources are summarized below. As discussed in prior sections of this Official Statement, proceeds from the Severance Tax and the Oil and Gas Severance Tax are pledged to the Bonding Fund for payment of interest, premium and principal of the Bonds. **Proceeds of other taxes shown below are not pledged to the payment of principal, premium, if any, or interest on Severance Tax Bonds.**

Production and Property Taxes on Oil and Natural Gas

Current effective production tax rates expressed on ad valorem and unit bases are shown below. The rates were based on data from Fiscal Year 2016 and reflect an average sales price of \$37.94 per barrel for oil and \$2.43 per thousand cubic feet (mcf) for natural gas. Prices for Fiscal Year 2017 were not available at the time of publication. The gross rates presented in the table below show taxes paid as a percentage of gross sales value before subtracting allowable deductions and tax credits. The gross tax per unit is also based on gross sales value. The net tax per unit, however, is based on taxable value net of allowable deductions and tax credits.

TABLE 22
Tax Rates on Oil and Natural Gas
Effective Tax Rates Applicable for Fiscal Year 2016

| Type of Tax | Crude Oil | | Natural Gas | |
|---|--------------|---------------|--------------|---------------|
| | Ad Valorem | Per Barrel | Ad Valorem | Per mcf |
| Price | | \$37.94 | | \$2.43 |
| Oil and Gas School Tax | 2.76% | \$1.05 | 2.68% | \$0.07 |
| Oil and Gas Severance Tax | 3.29 | \$1.25 | 2.53 | 0.06 |
| Oil and Gas Conservation Tax (General Fund only) | 0.17 | \$0.06 | 0.13 | 0.00 |
| Natural Gas Processors Tax | N/A | N/A | 0.65 | 0.02 |
| Oil and Gas Production ad valorem Tax | 1.07 | \$0.41 | 0.85 | 0.02 |
| Oil and Gas Production Equipment ad valorem Tax | 0.36 | \$0.14 | 0.70 | 0.02 |
| Total | 7.64% | \$2.90 | 7.53% | \$0.18 |
| Subtotal: State Tax Only (excludes ad valorem taxes) | 6.22% | \$2.36 | 5.99% | \$0.15 |

Source: New Mexico Department of Finance and Administration.

The Emergency School Tax rate of 3.15 percent imposed on natural gas was raised to 4 percent effective July 1, 1993. This action was taken partially to compensate for the large decreases in revenues due to the 1987 tax changes for natural gas. Further, it was believed that the tax increase was tolerable to industry because of relatively higher prices. The School Tax rate imposed on crude oil continues to be 3.15 percent.

Statutory rates on oil for the Emergency School Tax (3.15 percent), the Oil and Gas Severance Tax (3.75 percent) and the Conservation Tax (0.19 percent) are effectively reduced by deductions allowed for trucking costs and for Federal, State and Indian royalties. In 2010, the Conservation Tax rate on oil was increased from 0.19 percent to 0.24 percent when the average price of WTI in the previous quarter exceeds \$70.00 per barrel. The Oil and Gas Production Ad Valorem Tax and the Oil and Gas Production

Equipment Ad Valorem Equipment Tax are imposed in lieu of property taxes on mineral reserves and equipment located on the leasehold. Tax rates applied to these tax bases are local rates and vary by jurisdiction. The Ad Valorem Production Tax is subject to the same deductions as for School Tax, Severance Tax and Conservation Tax. The tax base for the Oil and Gas Production Equipment Ad Valorem Tax is the wellhead price, not reduced by the value of royalties.

Production, Sales, and Property Taxes on Coal

Total State production and property taxes on coal totaled approximately \$16.7 million in Fiscal Year 2016, down from approximately \$18.3 million in Fiscal Year 2015. Coal production, also, decreased from approximately 14.0 million tons in Fiscal Year 2015 to approximately 12.1 million tons in Fiscal Year 2016. Thus, the average effective tax rate per ton increased from \$1.31 per ton in Fiscal Year 2015 to approximately \$1.42 per ton for Fiscal Year 2016. With total sales revenue of approximately \$410.2 million in Fiscal Year 2016, the average effective tax rate was 4.08 percent of total sales revenue. This does not include the gross receipts tax. The average burden of production, property, and gross receipts taxes on a ton of coal produced and sold during Fiscal Year 2016 is shown in Table 23. Fiscal Year 2017 data were not available at the time of publication.

TABLE 23
Tax Burden on Coal for Fiscal Year 2016 ⁽¹⁾

| <u>Type of Tax</u> | <u>Tax per Ton</u> | <u>Effective Tax Rate</u> | <u>Taxes Collected</u> |
|--|--------------------|---------------------------|------------------------|
| Severance Tax and Surtax (Net of ITC) | \$0.56 | 1.66% | \$ 6,798,336 |
| Resource Excise Tax | \$0.25 | 0.74% | \$ 3,015,871 |
| Conservation Tax | \$0.06 | 0.19% | \$ 764,021 |
| Total Production Taxes | <u>\$0.91</u> | <u>2.58%</u> | <u>\$10,578,227</u> |
| Property Tax ⁽²⁾ | \$0.51 | 1.50% | \$ 6,132,060 |
| Gross Receipts Tax | \$0.96 | 2.84% | \$11,647,905 |
| Total Production and Non-Production Taxes | <u>\$2.38</u> | <u>6.92%</u> | <u>\$28,358,192</u> |
| Price per Ton ⁽³⁾ | | | \$33.83 |
| Total Production (Short Tons) | | | 12,124,191 |
| Total Value ⁽³⁾ | | | \$410,140,009 |

⁽¹⁾ The figures reported in this table come from the New Mexico Taxation and Revenue Department's GenTax System. These figures differ from actual distributions made by the Taxation and Revenue Department's Financial Services Bureau, as the distributions include penalties, interest, and other modifications such as previously unallocated or unidentified receipts. Total production is based on volumes reported on severance tax returns, which differ from the volumes reported on resource excise tax returns.

⁽²⁾ Property tax year began September 1, 2015.

⁽³⁾ Total may not sum due to rounding.

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the GenTax System, Financial Services Bureau and Property Tax Division's Central Assessment Unit).

Statutory rates for the resources excise tax and the conservation tax are effectively reduced by a deduction for Federal, State and Indian royalties. The effective severance tax rate on coal reflects the mix of old and new contract sales and of underground and surface mines. Property tax pertains to both equipment and production values. Fundamental differences in tax bases preclude a true comparison between property taxes and other taxes shown above. However, property taxes are included in this analysis to prevent understating the tax burden.

In addition to production taxes, gross receipts tax is imposed on coal produced and sold within the State. During 2015, the most recent year for which data is available (Source: U.S. Energy Information Administration), 60.4 percent of all coal produced in the State was supplied to electric power plants in New Mexico. In Fiscal Year 2016, 45.9 percent of all coal produced in New Mexico was subject to gross receipts tax. Part of the decline is due to the sale of the Navajo Mine to the Navajo Nation, which is exempt from gross receipts tax. The combined state and local tax rate for Fiscal Year 2016 is 6.72 percent of taxable gross receipts. Fiscal Year 2017 data were not available at the time of publication.

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each Series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest or redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

THE STATE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES HEREIN TO THE BONDHOLDERS OF THE BONDS WILL MEAN CEDE & CO., AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by State statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the State does not have responsibility for distributing such notices to the Beneficial Owners.

The State does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the Bonds.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following summarizes certain provisions of the Bond Resolution relating to the Bonds. This summary does not purport to be complete and reference is made to each Bond Resolution for a full and complete statement of its provisions.

Covenants

So long as any Bonds are outstanding, the State and the Board have covenanted and agreed with the owners of Bonds that: (a) the State will use its best efforts to collect and deposit in the Bonding Fund proceeds from Severance Taxes as set forth in the Severance Tax Bonding Act which, when combined with other amounts the State Legislature, in its sole discretion, may from time to time deposit in the Bonding Fund, will equal (i) at least two hundred percent (200%) of the amount of the principal of and interest scheduled to be due in each fiscal year of the State on the Senior Severance Tax Bonds, including the Bonds, and (ii) at least one hundred sixty percent (160%) of the amount of principal and interest scheduled to be due in each fiscal year of the State on the Senior Severance Tax Bonds and Supplemental Severance Tax Bonds; (b) the State will promptly pay the principal of and the interest on the Bonds, at the places, on the dates and in the manner specified in the Bond Resolution and in the Bonds; (c) the State will keep proper books of record and account, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to Severance Taxes, the Bonding Fund and the Rebate Fund; (d) any registered owner or Beneficial Owner of any of the Bonds or any duly authorized agent of such registered owner or Beneficial Owner, shall have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds, the collection of Severance Taxes and the Bonding Fund; provided, however, that pursuant to NMSA 1978, Section 6-14-10E (1983), records with regard to the ownership of or pledges of the Bonds are not subject to inspection or copying; (e) the State will prepare annual statements or audits of collections and disbursements of Severance Taxes in sufficient detail to show compliance with requirements of the Bond Resolution and the State will furnish a copy of such audit to any owner of Bonds upon written request therefor; (f) in order to prevent any accumulation of claims for interest after maturity, the State will not directly or indirectly extend or assent to the extension of time for the payment of interest on any of the Bonds; (g) the State will make no use of the proceeds of the Bonds or any funds reasonably expected to be used to pay the Bonds which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Tax Code"), or which would result in the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds; (h) the State (i) will take or cause to be taken such actions which may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes, and (ii) will not take or permit to be taken any actions which would adversely affect that exclusion, and the State or persons acting for it, will, if necessary to maintain such exclusion, among other acts of compliance, (1) apply, or cause to be applied, the proceeds

of the Bonds to the purpose of the borrowing, (2) restrict the yield on investment-type property acquired with those proceeds, (3) make timely rebate payments to the federal government in accordance with Section 148 of the Tax Code and the Bond Resolution, (4) maintain books and records and make calculations and reports, and (5) refrain from certain uses of proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Tax Code.

Defeasance

If the State shall pay all of the outstanding Bonds, or shall cause them to be paid and discharged in accordance with the next paragraph of this section, or if all payments of principal of and interest on the Bonds, due or to become due, shall otherwise be paid to the owners of the outstanding Bonds, then the Bond Resolution shall cease to be effective and become null and void (except for those provisions surviving in accordance with the last paragraph of this section), and the covenants, agreements and obligations of the Board and the State under the Bond Resolution shall be released, discharged and satisfied.

All or any part of the Bonds shall be deemed to have been paid and discharged if: (1) the Registrar/Paying Agent shall, in advance of any payment to the owners of the outstanding Bonds, have received sufficient moneys for the payment in full of the principal of and interest on the Bonds, or part thereof, or (2) there shall have been placed in trust for the payment of the Bonds and irrevocably committed to such payment, non-callable Defeasance Obligations (defined below) which are certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates, and scheduled to bear such interest, as will be sufficient, together with any moneys on deposit with the Registrar/Paying Agent available to pay principal of and interest on the Bonds, without further investment or reinvestment of either the principal amount or the interest earnings on such Defeasance Obligations (which earnings are to be held likewise in trust and so committed, except as provided herein), for the payment in full of all principal of and interest on the Bonds, or part of the Bonds, deemed to have been paid, at their maturity.

As used in the Bond Resolution, “Defeasance Obligations” means, as permitted by law:

(i) direct obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, or obligations issued by or backed by the full faith and credit of corporations sponsored by, the United States of America;

(ii) obligations issued or guaranteed as to full and timely payment of principal and interest by any agency or person controlled by and acting as an instrumentality of the United States of America, pursuant to authority granted by the Congress of the United States of America; and

(iii) obligations described in Section 103(a) of the Tax Code (a) provisions for the payment of the principal of, premium, if any, and interest on which (1) shall have been made by the irrevocable deposit, with a bank or trust company acting as a trustee or escrow agent for holders of such obligations, of non-callable securities described in clauses (i) and (ii) above, the maturing principal of and interest on which, when due and payable, without further investment or reinvestment, will provide sufficient moneys to pay when due the principal of and interest on such obligations, and (2) which securities described in clause (i) and (ii) are not available to satisfy year any other claim, including any claim of such trustee or escrow agent or of any person claiming through such trustee or escrow agent or to whom such trustee or escrow agent may be obligated, including claims in the event of the insolvency of such trustee or escrow agent or proceedings arising out of such insolvency or (b) rated by either S&P Global Ratings or Moody’s Investors Service, Inc., or similar rating agency in its highest rating category (without regard to any refinement or gradation by numerical modifier or otherwise).

Any moneys held in trust in accordance with the defeasance provisions of the Bond Resolution may be invested only in non-callable Defeasance Obligations having maturity dates, or having redemption dates which, at the option of the holder of such Defeasance Obligations, shall not be later than the date or dates at which moneys will be required for the purposes described above. Within fifteen (15) days after any Bonds are deemed to be paid and discharged, a written notice of such deemed payment and discharge shall be given to each registered owner of Bonds as shown on the registration books kept by the Registrar/Paying Agent on the date on which such Bonds are deemed paid and discharged. Such notice shall state the numbers of the Bonds deemed paid and discharged or state that all Bonds are deemed paid and discharged and set forth a description of the obligations held.

Notwithstanding that Bonds may be deemed to have been paid, any provisions of the Bond Resolution which relates to the maturity of Bonds, interest payments and dates thereof, exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Registrar/Paying Agent in connection with all of the foregoing, shall remain in effect and be binding upon the State and the Registrar/Paying Agent until final payment of all Bonds notwithstanding the release and discharge of the Bond Resolution. Notwithstanding any provision of the Bond Resolution to the contrary, any provisions of the Bond Resolution which relates to the exclusion of interest from gross income for federal tax purposes shall remain in effect and be binding upon the State and the Registrar/Paying Agent.

Amendment of Bond Resolution

The Bond Resolution may be amended or supplemented from time to time without the consent of or notice to the holders of the Bonds for any of the following purposes: (a) before or after issuance of the Bonds to add to, subtract from, or amend or clarify the list of Projects; (b) to cure any ambiguity, omission, formal defect or inconsistency; or (c) to make any change that, in the judgment of the Board, in reliance upon an opinion of counsel, does not have a material adverse effect on the rights of the owners of any Bonds; or (d) to achieve compliance with any applicable federal securities or tax laws or to ensure the exclusion of interest on the Bonds from the gross income of the owners of the Bonds for federal income tax purposes.

Except as provided above, the Bond Resolution may only be amended or supplemented by resolution adopted by the Board in accordance with applicable law, with or without receipt by the State of any additional consideration, but with the written consent of the owners of a majority in principal amount of the Bonds then outstanding; provided, however, that no such resolution shall have the effect of permitting: (i) an extension of the maturity of any Bond; or (ii) a reduction in the principal amount of, the rate of interest on, or the redemption premium on any Bond; or (iii) a reduction of the principal amount of Bonds required for consent to such amendatory or supplemental resolution; or (iv) the establishment of priorities as between Bonds issued and outstanding under the provisions of the Bond Resolution; or (v) the modification of, or otherwise affecting, the rights of the owners of less than all of the Bonds then outstanding.

Remedies of Holders of Bonds

The registered owners, or Beneficial Owners, of not less than 25 percent in aggregate principal amount of the Bonds then outstanding may bring an action to protect the rights of the registered owners and Beneficial Owners of Bonds under the Bond Resolution in any court of competent jurisdiction, for the specific performance of any covenant or agreement contained in the Bond Resolution or to enjoin any act or thing which may be unlawful or in violation of any right of any owner of the Bonds. All such proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all owners of the Bonds then outstanding. The failure of any registered owner or owners or Beneficial Owner or

Beneficial Owners of Bonds to so proceed shall not relieve the State or the Board of any obligation to perform any duty under the Bond Resolution. Each right or privilege of such owner and Beneficial Owner is in addition and cumulative to any other right or privilege, and the exercise of any right or privilege by or on behalf of any registered owner or Beneficial Owner shall not be deemed a waiver of any other right or privilege.

Payment of Principal and Interest

The Bonds and the interest accruing on the Bonds shall be payable and collectible out of the Bonding Fund, which is pledged for such payment as provided in the Severance Tax Bonding Act. Interest on the Bonds shall be payable by check or draft mailed to their registered owners, as shown on the registration books for the Bonds maintained by the Registrar/Paying Agent at the address appearing in such books at the close of business on the fifteenth (15th) day of the calendar month next preceding each applicable interest payment date (the "Record Date"), or, if such date is not a business day, the first business day thereafter, or in such other manner as may be agreed upon by the Registrar/Paying Agent and the registered owner of a Bond. Interest which is not timely paid or duly provided for shall cease to be payable to the owners of the Bonds (or of one or more predecessor Bonds) as of the Record Date, but shall be payable to the registered owners of the Bonds (or of one or more predecessor Bonds) at the close of business on a special record date (the "Special Record Date") for the payment of that overdue interest to be fixed by the Registrar/Paying Agent. The Special Record Date shall be fixed by the Registrar/Paying Agent whenever moneys become available for payment of the overdue interest, and notice of the Special Record Date shall be given to owners of Bonds not less than ten (10) days prior to such date. The principal of and interest on the Bonds is payable upon presentation and surrender of the Bonds without deduction for exchange or collection charges at the office of the Registrar/Paying Agent. Principal of and interest on the Bonds are payable in lawful money of the United States of America.

While registered in the name of DTC or its nominee, payments of principal of and interest on the Bonds shall be made to DTC or its nominee as set forth in the Letter of Representation between DTC and the State.

TRANSCRIPT AND LEGAL OPINIONS

The Board will prepare an official transcript of proceedings of the authorization and issuance of the Bonds.

Legal matters incident to the issuance of the Bonds and the exclusion from gross income for Federal and State of New Mexico income tax purposes of interest on the Bonds (see "TAX MATTERS" below and the form of opinions of Co-Bond Counsel, attached hereto as Appendix D) are subject to the approving legal opinions of Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel to the State ("Co-Bond Counsel"). Certain legal matters will be passed upon for the State of New Mexico by Kutak Rock LLP, Disclosure Counsel. Certain legal matters will be passed upon for the State of New Mexico by the Office of the Attorney General of the State of New Mexico.

TAX MATTERS

In the opinions of Co-Bond Counsel, assuming continuous compliance with certain covenants described below, interest on the Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Tax Code, interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations as described below, and interest on

the Bonds is exempt from income taxes imposed directly thereon by the State under New Mexico income tax laws in effect on the date of delivery of the Bonds as described herein.

The Tax Code and New Mexico law impose several requirements which must be met with respect to the Bonds in order for the interest thereon to be excluded from gross income, alternative minimum taxable income (except to the extent of the aforementioned adjustment applicable to corporations), New Mexico taxable income and New Mexico alternative minimum taxable income. Certain of these requirements must be met on a continuous basis throughout the term of the Bonds. These requirements include: (a) limitations as to the use of proceeds of the Bonds; (b) limitations on the extent to which proceeds of the Bonds may be invested in higher yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on the proceeds of the Bonds above the yield on the Bonds to be paid to the United States Treasury. The State will covenant and represent in the Bond Resolution that it will take all steps to comply with the requirements of the Tax Code and New Mexico law (in effect on the date of delivery of the Bonds) to the extent necessary to maintain the exclusion of interest on the Bonds from gross income and alternative minimum taxable income (except to the extent of the aforementioned adjustment applicable to corporations) under such federal income tax laws and New Mexico taxable income under such New Mexico income tax laws. Co-Bond Counsel's opinions as to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income (to the extent described above), New Mexico taxable income and New Mexico alternative minimum taxable income is rendered in reliance on these covenants, and assumes continuous compliance therewith. The failure or inability of the State to comply with these requirements could cause the interest on the Bonds to be included in gross income, alternative minimum taxable income, New Mexico taxable income or New Mexico alternative minimum taxable income, or a combination thereof, from the date of issuance. Co-Bond Counsel's opinions also are rendered in reliance upon certifications of the State and other certifications furnished to Co-Bond Counsel. Co-Bond Counsel have not undertaken to verify such certifications by independent investigation.

Section 55 of the Tax Code contains a 20 percent alternative minimum tax on the alternative minimum taxable income of corporations. Under the Tax Code, 75 percent of the excess of a corporation's "adjusted current earnings" over the corporation's alternative minimum taxable income (determined without regard to this adjustment and the alternative minimum tax net operating loss deduction) is included in the corporation's alternative minimum taxable income for purposes of the alternative minimum tax applicable to the corporation. "Adjusted current earnings" includes interest on the Bonds.

The Tax Code contains numerous provisions which may affect an investor's decision to purchase the Bonds. Owners of the Bonds should be aware that the ownership of tax-exempt obligations by particular persons and entities, including, without limitation, financial institutions, insurance companies, recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, foreign corporations doing business in the United States and certain "subchapter S" corporations may result in adverse federal and New Mexico tax consequences. Under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the Bonds made to any owner who fails to provide certain required information, including an accurate taxpayer identification number, to certain persons required to collect such information pursuant to the Tax Code. Backup withholding may also be applied if the owner underreports "reportable payments" (including interest and dividends) as defined in Section 3406, or fails to provide a certificate that the owner is not subject to backup withholding in circumstances where such a certificate is required by the Tax Code. Certain of the Bonds may be sold at a premium, representing a difference between the original offering price of those Bonds and the principal amount thereof payable at maturity. Under certain circumstances, an initial owner of such bonds (if any) may realize a taxable gain upon their disposition, even though such bonds are sold or redeemed for an amount equal to the owner's acquisition

cost. Co-Bond Counsel's opinions relate only to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income, New Mexico taxable income and New Mexico alternative minimum taxable income as described above and will state that no opinion is expressed regarding other federal or New Mexico tax consequences arising from the receipt or accrual of interest on or ownership of the Bonds. Owners of the Bonds should consult their own tax advisors as to the applicability of these consequences.

The opinions expressed by Co-Bond Counsel are based on existing law as of the delivery date of the Bonds. No opinion is expressed as of any subsequent date nor is any opinion expressed with respect to pending or proposed legislation. Amendments to the federal or State tax laws may be pending now or could be proposed in the future that, if enacted into law, could adversely affect the value of the Bonds, the exclusion of interest on the Bonds from gross income or alternative minimum taxable income or both from the date of issuance of the Bonds or any other date, the tax value of that exclusion for different classes of taxpayers from time to time, or that could result in other adverse tax consequences. In addition, future court actions or regulatory decisions could affect the tax treatment or market value of the Bonds. Owners of the Bonds are advised to consult with their own tax advisors with respect to such matters.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, the market value of the Bonds may be adversely affected. Under current audit procedures, the Service will treat the State as the taxpayer and the Owners may have no right to participate in such procedures. The State has covenanted in the Bond Resolution not to take any action that would cause the interest on the Bonds to lose its exclusion from gross income for federal income tax purposes or lose its exclusion from alternative minimum taxable income except to the extent described above for the owners thereof for federal income tax purposes. None of the State, the Board, Fiscal Strategies Group, Inc., Public Resources Advisory Group, Rodey, Dickason, Sloan, Akin & Robb, P.A., or Sherman & Howard L.L.C. is responsible for paying or reimbursing any Bondholder with respect to any audit or litigation costs relating to the Bonds.

A copy of the proposed form of opinion of Co-Bond Counsel is attached hereto as Appendix D.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on or ownership of the Bonds. Prospective purchasers or owners should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability, inclusion of Social Security or other retirement payments in taxable income and the State and local tax rules in New Mexico and other states.

LITIGATION

At the time of the original delivery of the Bonds, the Board will deliver a no-litigation certificate to the effect that no litigation or administrative action or proceeding is pending, or, to the knowledge of the appropriate State officials, threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, the effectiveness of the legislation authorizing the issuance of the Bonds, the levying or collecting of any taxes for the payment of the debt service on the Bonds (other than those cases described in Appendix C, which proceedings are not, in the opinion of the State Attorney General, reasonably expected to have a material effect on the bondholders), or contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Bonds.

The State is a party to various legal proceedings seeking damages or injunctive relief and generally incidental to its operations which proceedings are unrelated to the Bonds, and to the security therefor. The ultimate disposition of such proceedings is not presently determinable. Such proceedings are not, in the opinion of the State Attorney General, reasonably expected to have a material adverse effect on the Bonds or the security for the payment of the Bonds for the following reason: Severance Taxes are the primary source of payment for the Bonds which are limited obligations of the State. See Appendix C for a summary of litigation and administrative action or proceedings that impact Severance Taxes.

FINANCIAL ADVISORS

The Board has retained Fiscal Strategies Group, Inc., as Financial Advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. Fiscal Strategies Group, Inc. has contracted with Public Resources Advisory Group (together with Fiscal Strategies Group, Inc., the “Financial Advisors”) in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. The Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement nor the information, covenants and representations contained in any of the Bond documentation with respect to the federal income tax status of the Bonds. The Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The financial advisory fee for services performed with respect to the Bonds is contingent upon the issuance and delivery of the Bonds but is payable from the Bonding Fund.

RATINGS

The Bonds have received ratings from Moody’s Investors Service, Inc., and S&P Global Ratings, as set forth on the cover of this Official Statement.

Such ratings reflect only the views of the respective organizations. An explanation of the significance of each rating may be obtained from the rating agency furnishing such rating. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of either rating can be expected to have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The Board will agree, by means of a continuing disclosure undertaking (the substantial form of which appears in Appendix E) to be delivered to the purchaser of the Bonds at closing, for the benefit of owners of the Bonds, to provide certain annual financial information relating to the State by no later than 210 days after the end of each fiscal year of the State, commencing with the fiscal year ending June 30, 2018, and to provide notices of occurrence of certain enumerated events. The Board will further agree in the continuing disclosure undertaking that if its audited financial statements are not provided as part of the annual financial information, the Board will provide such audited statements when available. The annual financial information and audited financial statements (when available) and material event notices will be filed by the Board with the Municipal Securities Rulemaking Board (through EMMA) and with any New Mexico State Information Depository. In the event of a failure of the Board to comply with any provision of the continuing disclosure undertaking, any owner of Bonds (including beneficial owners of the Bonds) may seek specific performance by court order from the First Judicial District Court in Santa Fe County, New Mexico.

As allowed under the terms of the prior continuing disclosure undertakings the State timely filed drafts of annual financial statements for 2012 and 2013 submitting the final audited financial statements when they were available. For the Fiscal Year ending June 30, 2012 (and in several proceeding years), the Board, on behalf of the State, made timely filings in accordance with continuing disclosure undertakings previously entered into by the Board in relation to the State's Capital Projects General Obligation Bonds; however, such filings did not contain certain State mill levy operating data information. This information was contained in official statements used in connection with the issuance and sale of the State's Capital Projects General Obligation Bonds, including without limitation, the official statement used in connection with the issuance and sale of the State's Capital Projects General Obligation Bonds, Series 2013 dated March 19, 2013. The Board, on behalf of the State, intends to include such information in all future continuing disclosure undertakings filings.

The continuing disclosure undertaking with respect to the Bonds will be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of: (i) the date the principal and interest on the Bonds is paid or deemed paid; (ii) the date the Board is no longer an "obligated person" with respect to the Bonds within the meaning of the Rule; and (iii) the date on which those portions of the Rule which require the continuing disclosure undertaking are held invalid or repealed.

MISCELLANEOUS

The foregoing summaries, descriptions and references do not purport to be comprehensive or definitive, and such summaries, descriptions and references are qualified in their entirety by reference to each statute, document, exhibit or other materials summarized or described. The instruments and other materials referred to in this Official Statement may be examined, or copies thereof will be furnished in reasonable amounts, upon written request to the New Mexico State Board of Finance, 407 Galisteo Street, Bataan Memorial Building, Room 181, Santa Fe, New Mexico 87501, or by telephone at (505) 827-4980.

Statements made in this Official Statement involving matters of opinion, forecasts or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. The Appendices are integral parts of this Official Statement and must be read with all other parts of this Official Statement.

This Official Statement has been authorized and issued by the Board.

STATE BOARD OF FINANCE
OF THE STATE OF NEW MEXICO

By: Governor Susana Martinez
President

APPENDIX A

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

The State of New Mexico (the “State”), admitted as the forty-seventh state on January 6, 1912, is the fifth largest state in land area, containing approximately 121,593 square miles. The estimated 2016 population of the State is 2,081,015 according to the United States Census Bureau. The State has a semiarid subtropical climate with light precipitation. Its climate is characterized by sunshine and bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 30 to 60 percent. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, and Commissioner of Public Lands. These officials are elected to four-year terms beginning January 1 after their election. An elected Executive Branch officer may succeed himself or herself in office once. The primary functions of the Executive Branch are currently carried out by the offices of each elected Executive Branch officeholder, in addition to approximately 22 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature, and approximately 9 cabinet-level agencies. Elections for all statewide offices were held on November 4, 2014.

The State Board of Finance (the “Board”) has seven voting members consisting of the Governor, the Lieutenant Governor, the State Treasurer, and four members appointed by the Governor with the advice and consent of the Senate. No more than two appointed members may be from the same political party. The Secretary of the Department of Finance and Administration (“DFA”) serves as the Executive Officer of the Board and is a non-voting Board member. The Board, in addition to other powers and duties provided by law, has general supervisory authority over the fiscal affairs of the State and over the safekeeping and depositing of all money and securities belonging to, or in the custody of, the State. The Governor serves as the President of the Board.

The DFA is the principal financial organization of State government and performs through its divisions the duties and functions relating to State and local government financing and general administration. The executive and administrative head of the DFA is the Secretary, who is appointed by the Governor with the advice and consent of the Senate. The Board of Finance is a division of the DFA that provides operational, analytical and administrative support to the Board. The Director of the Board is appointed by the Secretary with the approval of the Board.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms and members of the House are elected for two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to 60 calendar days in odd-numbered years and 30 calendar days in even-numbered years. Special sessions of the Legislature may be convened by the Governor. Extraordinary sessions may be convened by the Legislature under certain limited circumstances. Legislators do not receive any salary, but do receive per diem and mileage allowances while in session or performing official State business.

The judicial branch is composed of a statewide system including Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Courts are the trial courts of record with general jurisdiction.

State Budget for Fiscal Years 2013 through 2018

Fiscal Year 2013. New Mexico's economy stagnated in Fiscal Year 2013. Total General Fund revenues fell by 1.6 percent. Total recurring revenue was approximately \$5.7 billion. Approximately half of the decline in General Fund revenue was attributable to lower oil and natural gas prices, a reflection of national and international trends in energy markets and lackluster state lease sales. The price of oil averaged \$85.82 per barrel and the price of natural gas averaged \$4.40 per mcf in Fiscal Year 2013. Mineral production taxes, bonuses and royalties totaled \$943 million in Fiscal Year 2013, a decrease of 9 percent from Fiscal Year 2012. In addition, the federal government sequestered about \$21 million in Federal Mineral Leasing (FML) revenues, which were returned to the state in the early half of Fiscal Year 2014, causing a shift in revenue accounting periods.

The state's broad-based taxes grew minimally during Fiscal Year 2013, with the exception of personal income tax collections, which grew by 7.9 percent. This growth rate was partially driven by accelerated payments that were made in anticipation of federal tax changes. Fiscal Year 2013 general sales tax revenue was 1.1 percent below Fiscal Year 2012, primarily due to reduced federal procurement spending. Corporate income tax collections fell 4.9 percent compared to Fiscal Year 2012, apparently a reflection of the sluggish national rate of economic growth. Investment income to the General Fund from the state's Permanent Funds also declined in Fiscal Year 2013 due to the constitutionally mandated decrease in the annual distribution from the Land Grant Permanent Fund from 5.8 percent to 5.5 percent in Fiscal Year 2013.

General Fund reserves were approximately \$651.4 million at the end of Fiscal Year 2013, approximately 11.5 percent of Fiscal Year 2013 recurring appropriations, after accounting for the \$31.7 million contingent liability established in the Fiscal Year 2013 General Fund financial statements for potential charges related to unreconciled cash transactions. This balance also includes a \$20 million contingent appropriation related to special education funding maintenance of effort.

Fiscal Year 2014. General Fund revenues rebounded from the Fiscal Year 2013 decline largely as a result of high oil and natural gas revenues. Recurring revenue grew by 5.8 percent in Fiscal Year 2014, reaching \$6.0 billion. New Mexico oil prices averaged \$95.14 per barrel and the price of natural gas averaged \$5.13 per mcf. Strong oil and natural gas production contributed to the revenue increase with oil volume growth of 17 percent and natural gas volume growth of 1 percent. Mineral production taxes, rents and royalties increased by 24.6 percent over Fiscal Year 2013 to \$1.2 billion. General sales taxes, including the gross receipts tax (GRT) and compensating tax, also experienced growth of 5.2 percent. Permanent fund investment income benefited from a larger fund corpus and strong stock market returns. Income tax revenues decreased slightly, reflecting a one-time acceleration of capital gains income in Fiscal Year 2013.

Major changes were made to the corporate income tax in the 2013 legislative session to be phased in over several years beginning in Fiscal Year 2014. These changes include a phased-in reduction of corporate tax rates and single sales factor income apportionment for manufacturers. Legislation passed in the 2014 legislative session allows taxpayers to carry forward net operating losses (NOLs) for 20 years.

The General Fund reserve balance was approximately \$638 million at the end of Fiscal Year 2014 or 10.8 percent of Fiscal Year 2014 recurring appropriations. Reserves were negatively impacted by a reduction of \$73.1 million of federal Medicaid reimbursements. The reserves were also affected by a \$20

million reduction in tobacco settlement distributions in Fiscal Year 2014 as a result of a recent arbitration decision that found New Mexico was lacking in diligence in Fiscal Year 2003 with regards to non-participating manufacturers to the Master Settlement Agreement. In addition, the State booked a \$26 million contingent appropriation related to federal special education funding maintenance of effort requirements. The State believes it has met maintenance of effort requirements, and has appealed the federal ruling, but a full resolution will likely take more than a year. This balance does not include the \$100 million contingent liability established for the potential loss related to book to bank reconciliation.

Fiscal Year 2015. A steep drop in crude oil and natural gas prices during Fiscal Year 2015 sharply reduced the growth rate of General Fund recurring revenue. Whereas non-oil and gas related revenue grew by over 7 percent, total revenue including oil and gas related revenues grew at 2.6 percent to \$6.2 billion, surpassing the previous peak level reached in Fiscal Year 2008. New Mexico oil prices averaged \$60.64 per barrel in Fiscal Year 2015, while New Mexico natural gas prices averaged \$3.78 per mcf. Strong volume growth offset declining energy prices with oil volumes growing 25 percent over Fiscal Year 2014. Natural gas volumes remained unchanged from the prior fiscal year. With strong growth across the retail, construction, wholesale, and service sectors, GRT grew by 5.2 percent. Distributions from the State's two permanent funds continued to benefit from a larger fund corpus and strong stock market returns, reaching a total of \$685 million or 11 percent of total General Fund revenues. Income tax revenues also grew in Fiscal Year 2015 with 6.8 percent growth for personal income tax and 29.3 percent growth for corporate income tax. General Fund reserves were \$713.1 million or 11.6 percent of recurring appropriations at the end of Fiscal Year 2015. This balance includes release of the \$100 million contingent liability established for the potential loss related to book to bank reconciliation. See "Financial Processes and Procedures," below.

Fiscal Year 2016. Fiscal Year 2016 recurring revenues decreased by 8.4 percent to \$5.7 billion, driven by a decrease of 29.1 percent in oil and natural gas related revenue. New Mexico oil prices averaged \$37.94 per barrel in Fiscal Year 2016, while New Mexico natural gas prices averaged \$2.42 per mcf. Growth of 3.7 percent in oil volumes partially offset declining oil prices, while natural gas volumes decreased by 1.0 percent over Fiscal Year 2015. Results show a significant decline in the State's broad-based gross receipts, compensating, personal income, and corporate income taxes, which were all impacted by ongoing weakness in the oil and natural gas sectors. The decline in revenue was partially affected by the diversion of a large portion of the liquor excise tax to the lottery tuition scholarship program. Offsetting this and other declines, the insurance premiums tax collections increased sharply due to expansion of the Medicaid program.

Following enactment of the Fiscal Year 2016 budget, several downward revisions to the consensus revenue estimate led to additional budget cuts and fund transfers, and prompted the Governor to call a special session early in Fiscal Year 2017. As a result of the revised forecast, during the 2016 legislative session the legislature enacted a 0.5 percent across-the-board reduction in Fiscal Year 2016 appropriations, with the exception of the Medicaid program and certain other healthcare-related programs. The Legislature also passed House Bill 311, which allowed one-time transfers from various state funds into the General Fund, totaling \$40.6 million in Fiscal Year 2016 and \$74.9 million in Fiscal Year 2017. The Fiscal Year 2016 transfer included the \$36 million operating reserve fund balance that had been restricted for supplemental special education maintenance of effort funding.

During the 2016 special legislative session, Senate Bill 2 authorized the transfer of \$109.1 million from the Tobacco Settlement Permanent Fund to the General Fund appropriation account to close Fiscal Year 2016 in balance. Also to close Fiscal Year 2016, \$485.4 million was transferred from operating reserves to the General Fund appropriation account. Due to the rapid deterioration in oil- and gas-related revenues, Fiscal Year 2016 ending balances fell to \$147.8 million or 2.4 percent of recurring appropriations from \$713.1 million or 11.6 percent in Fiscal Year 2015.

Fiscal Year 2017. According to the December 2016 consensus revenue estimate, Fiscal Year 2017 recurring revenues are estimated to be \$5.6 billion, representing a decrease of 1.9 percent over Fiscal Year 2016. Oil and natural gas related revenue is projected to increase slightly from Fiscal Year 2016 levels. New Mexico oil prices are projected to average \$43.00 per barrel in Fiscal Year 2017, while New Mexico natural gas prices are expected to average \$3.15 per mcf. Oil volumes are projected to decline by 2.5 percent in Fiscal Year 2017 and natural gas volumes are estimated to decline by 2.6 percent. Non-oil and gas related revenue was forecast to decline by 3.6 percent, reflecting a decline of 5.1 percent in gross receipts tax revenue, offset in part by growth of 0.3 percent in personal income tax and 10.2 percent in insurance premiums tax. Corporate income tax revenues are expected to decline by 40.9 percent over the previous fiscal year. In February 2017, the Consensus Revenue Estimating Group conducted a mid-legislative session review of the December 2016 revenue estimate; the group closely evaluated both new upside and downside information and concluded the net result did not warrant a revision to the December 2016 forecast.

During the 2016 special legislative session, several bills were enacted to address Fiscal Year 2017 solvency including, authorization to transfer the balance in the Tobacco Settlement Reserve Fund to the appropriation account to cover Fiscal Year 2016 and Fiscal Year 2017 expenditures, \$92.8 million in funding sweeps to the General Fund, a \$12.5 million appropriation of supplemental severance tax note proceeds for public school capital outlay needs to replace General Fund appropriations, reduced Legislative Retirement Fund distributions, an increased distribution of insurance premiums tax revenue to General Fund, and reduction in General Fund distributions to the Retiree Health Care Fund.

Senate Bill 8 of the special session provided for certain short-term taxable severance tax note and supplemental severance tax note proceeds totaling \$19.2 million to be swept to the General Fund to restore past capital allotments, and the exchange of \$56.2 million of General Fund appropriations for capital outlay projects with severance tax bond funding. Senate Bill 8 also allowed the one-time transfer of excess severance tax revenue to the general fund rather than the severance tax permanent fund. This transfer, known as the “super sweep,” totaled \$28,279,400 million. Senate Bill 9 reduced State agency budgets, excepting certain health- and safety-related appropriations, by 5.5 percent, with judicial and legislative cuts of 3.0 percent, all of which reduced recurring appropriations by \$170.9 million in Fiscal Year 2017. Senate Bill 9 also provided for redistributing public school State Equalization Guarantee distributions to special education services if funding is insufficient to meet federal maintenance of effort requirements.

Revenue measures passed during the 2016 special session include, narrowing the eligibility criteria for the health care practitioner gross receipts tax deduction and the High Wage Jobs Tax Credit, with an estimated benefit to recurring revenues of \$10.2 million. Following the 2016 special legislative session, Fiscal Year 2017 ending reserves were projected to be -\$61.6 million or -1.2 percent of recurring appropriations.

During the 2017 regular legislative session, additional action was taken to address Fiscal Year 2017 solvency and increase reserve levels, including generating \$78.3 million in non-recurring revenue by aligning the insurance revenue streams with current GAAP standards, \$47.2 million of non-recurring revenue through various state fund sweeps and transfers, \$46.1 million to the general fund by reducing the Fiscal Year 2017 State Equalization Guarantee distributions for school districts and charter schools as a credit against Fiscal Year 2016 year-end operational cash balances. Exempting any Fiscal Year 2017 emergency supplemental distributions, each school district’s and charter school’s credit share was proportional to their Fiscal Year 2016 program cost (or formula funding).

Ongoing funding shortfalls projected in Fiscal Year 2018 and the need to shore up Fiscal Year 2017 reserves led to the call for another special session in May 2017. Solvency measures passed during

the 2017 special legislative session include authority to issue \$84.1 million of short-term taxable supplemental severance tax notes to restore past General Fund capital allotments. After action in both the regular and special 2017 legislative sessions, Fiscal Year 2017 reserves are projected to be \$196.2 million, or 3.2 percent of recurring appropriations assuming the December 2016 consensus revenue forecast. However, an additional \$120 million in revenue strength seen in the second half of Fiscal Year 2017, which has not yet been adopted into the consensus forecast, is expected to add to the reserves. The Department of Finance and Administration estimates that Fiscal Year 2017 revenue will exceed the December 2016 consensus forecast, bringing Fiscal Year 2017 ending reserves above 5.0 percent of recurring appropriations.

A combination of economic factors including rising enrollments, a decrease in the federal matching rate for the new adult group (a.k.a. Medicaid expansion), rising drug costs, and insufficient legislative appropriations caused the State to experience a funding shortfall in the Medicaid program in Fiscal Years 2016 and 2017. In response to the shortfall, the State implemented a number of cost-reduction measures, including reduced reimbursement rates for health care providers and reduced administrative spending for Medicaid managed care organizations (“MCOs”). The State is also proposing new mandatory payments for some patients. Slightly lower enrollment rates, a delay in the imposition of certain federal fees on insurance companies, including MCOs, and the possibility of additional federal funding for services provided to Native Americans reduced the General Fund shortfall for Fiscal Year 2017. The State also reached a settlement with the Centers for Medicare and Medicaid Services (CMS) for old claims for federal funding, resulting in the return of \$16.8 million to the State. The Medicaid program is now projected to close Fiscal Year 2017 with a surplus.

In November 2015, the United States Health and Human Services Office of Inspector General (the “Inspector General”) released a report concluding that the State received more than \$16.0 million in unallowable performance bonus payments under the Children’s Health Insurance Program Reauthorization Act (“CHIPRA”) for Fiscal Years 2009 through 2013. Specifically, the Inspector General determined that the State included ineligible individuals in its enrollment figures for bonus requests to the Centers for Medicare and Medicaid Services (“CMS”), resulting in an overpayment of \$16.0 million by CMS to the State. The Inspector General recommended that the State refund the money to the federal government. In the report, the State stated that it believed its methodology for determining enrollment was correct and that the bonus payments received were allowable under federal requirements. According to the State, the methodology was delineated in the supporting documentation submitted with each CHIPRA bonus application, and the documentation indicated the specific population groups that were being excluded. CMS approved payments based on this methodology, and at no time did CMS deem the state’s methodology to be incorrect or not in compliance with its guidelines. It is expected that the CMS will determine whether to pursue any recovery in connection with the Inspector General’s recommendation.

In September 2016, the Office of the State Auditor (the “OSA”) released an audit conducted in partnership with the Office of the Superintendent of Insurance (the “OSI”) that suggested that insurance firms had been underpaying the premiums tax. It examined the insurance premiums taxes collected between April 2010 and April 2015 and found that within a sample comprising 26 percent of the total collected there was likely underpayment of \$193 million over the five year period. The OSI has disagreed with the audit findings and has called for the repayment of a lower amount, which could be substantially less than the amounts that would be produced by using the OSA methodology. The Executive worked with the OSA and the Legislature to ensure that a special audit would be conducted. A request for proposals was issued and the contract was awarded to Examination Resources, LLC. The special audit is underway with a final report to be delivered to the OSA by September 30, 2017.

Fiscal Year 2018. According to the December 2016 consensus revenue estimate, which was reviewed and retained by the consensus group in the February 2017 mid-session review, Fiscal Year 2018 recurring revenues are estimated to be \$5.9 billion, representing an increase of 5.9 percent over the Fiscal Year 2017 consensus forecast. Oil and natural gas related revenue is projected to increase by 4.9 percent over Fiscal Year 2017 levels. New Mexico oil prices are projected to average \$48.00 per barrel, while New Mexico natural gas prices are expected to average \$3.31 per mcf. Oil volumes are projected to remain flat in Fiscal Year 2018 and natural gas volumes are estimated to decline by 3.1 percent. Non-oil and natural gas related revenue was forecast to increase by 6.0 percent, reflecting increases of 7.5 percent in gross receipts tax, 1.1 percent in personal income tax, and 4.1 percent in insurance premiums tax.

In the 2017 special legislative session, additional action was taken to increase Fiscal Year 2018 non-recurring revenue, including the transfer to the General Fund of \$8 million of governmental gross receipts tax revenue that would otherwise pass to the New Mexico Finance Authority and the temporary suspension of an annual \$900,000 distribution to the legislative retirement fund in Fiscal Years 2018 and 2019 conditional on a determination by the Public Employees Retirement Association that the funded ratio remains at or above 100 percent.

Legislation passed during the 2017 special session included the establishment of a natural resource tax stabilization reserve to minimize the volatility of oil and gas revenue and provide additional rainy day funds to protect against sharp declines in revenue. The legislation requires any revenues generated from the Oil and Gas School Tax that are in excess of the 5-year average for that revenue source to be deposited into the Tax Stabilization Reserve Fund, which is part of the General Fund reserves. Appropriations from the Tax Stabilization Reserve require a super majority and a declaration from the governor that the appropriation is necessary for public peace, health or safety. The first such distribution is estimated to occur in Fiscal Year 2020.

After action in the 2017 special legislative session, total Fiscal Year 2018 appropriations were set at \$6.1 billion, resulting in projected ending balances of \$63 million or 1.0 percent of recurring appropriations based on the December 2016 consensus revenue estimate. However due to the revenue strength experienced in Fiscal Year 2017, which has not yet been adopted into the consensus forecast, the Department of Finance and Administration estimates that Fiscal Year 2018 ending reserves will be near 3.0 percent of recurring appropriations.

Education Funding Litigation. Two lawsuits challenging the funding of the State's primary and secondary education system have been pending since 2014. In March 2014, individual plaintiffs in New Mexico District Court in McKinley County reinstated a suit originally brought against the State and others in 1998, alleging, primarily, that the State's educational funding formula violates the sufficiency of education and uniform system of public schools provisions of the New Mexico Constitution. The Plaintiffs in the McKinley County case have asked the court for injunctive relief ordering the State to develop a budget and funding formula that sufficiently, uniformly and equitably funds the public school system. In April 2014, individual plaintiffs in New Mexico District Court in Santa Fe County brought suit against the State, among others, alleging, among other things, that the State has failed to provide a sufficient and uniform system of education in violation of the sufficiency, uniformity, equal protection and due process provisions of the New Mexico Constitution because of an inadequate and arbitrary funding system. The lawsuit asks for a declaratory judgment and injunctive relief requiring the adoption of a school finance system to remedy the alleged violations. Neither lawsuit asks for a specific award of damages. On January 26, 2015, The Honorable Judge Singleton of the First Judicial District Court of Santa Fe County ordered that the two pending lawsuits be consolidated and that venue for the consolidated cases be in the First Judicial District Court of Santa Fe County. A bench trial in the consolidated cases began on June 12, 2017 and is expected to conclude on or about August 10, 2017.

Public Education Department Audits. In March 2016, the Office of the State Auditor noted that recent audits of the Public Education Department had uncovered a lack of meaningful oversight and control over the finances of the State’s increasing number of charter schools. The State Auditor concluded that greater financial controls would be necessary in the future. The Office also noted a \$21 million understatement of infrastructure spending by the Public Education Department.

In response to the concerns of the State Auditor, the PED requested that all State-chartered charter schools submit corrective action plans to the PED by May 8, 2016, with similar plans to be provided each year thereafter following release of the audit. The PED Charter School Division has implemented training and guidance procedures for newly-created charter schools, including good governance practices, school budget and finance rules, and basic training in Public Schools Accounting and Budgeting procedures. In addition, each charter school has been assigned a school budget analyst in the Charter School Division to provide assistance and oversight of cash reporting. The PED has also begun to provide semi-annual workshops in partnership with the New Mexico Association of School Business Officials on various school business topics. The PED will evaluate whether mandatory attendance at such workshops might be a reasonable requirement.

Pension and Other Retirement Funds and Benefits

Legislative History. The Legislature enacted the Educational Retirement Act, Section 22-11-1 et seq. NMSA 1978, the Public Employees Retirement Act, Section 10-11-1 et seq. NMSA 1978, and the Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19, NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are managed by the Educational Retirement Board (“ERB”), the Public Employees Retirement Association (“PERA”), and the New Mexico Retiree Health Care Authority (“NMRHCA”) and described below. The Legislature establishes all financing provisions of the plans and the provisions are not subject to negotiation. Financing provisions include employee and employer contributions, fund investment provisions and benefit provisions. In 1998, the voters amended the State Constitution, adopting Section 22 of Article XX, which states that upon meeting the minimum service requirements of an applicable retirement plan created by law for employees of the State or any of its political subdivisions or institutions, a member of a plan shall acquire a vested property right with due process protections under the applicable provisions of the New Mexico and United States Constitutions. The amendment also stated that nothing in Section 22 shall be construed to prohibit modifications to retirement plans that enhance or preserve their actuarial soundness.

Educational Retirement Board-Historic Financial Information. The ERB had 150,082 members as of June 30, 2016, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the “Fund”) as of June 30, 2016 was \$11.5 billion. The ERB had net investment gains for the Fiscal Year 2016 of 3.1 percent. As of March 31, 2017, the market value of the Fund was \$12.1 billion. Fiscal Year 2017 data were not available at the time of publication.

As with many other states, the State has experienced funding issues regarding its pension funds. The Legislature has enacted several reforms in recent years to better ensure the continued sustainability of the ERB pension program. In 2009, the Legislature increased the years in service requirement from 25 to 30 years, and extended the rule whereby ERB members could retire with full benefits if their combined service and age at retirement met or exceeded 75 to 80 for new members hired after July 1, 2010. A 2011 change in law required retired members who return to work with an educational employer to pay non-refundable contributions to the Fund equal to the amount paid by non-retired employees. Employers continue to pay the employers’ contributions to the Fund for retired members who return to work. Finally, in 2013, the Legislature increased employee contributions for members whose salary exceeds \$20,000 per year to 10.1 percent in Fiscal Year 2014 and 10.7 percent beginning in

Fiscal Year 2015, kept in place scheduled increases in employer contribution rates, created a new tier of membership for persons who become members on or after July 1, 2013, created certain actuarial limitations on benefits of new tier members, and placed limitations on future cost of living adjustments (“COLA”) for current and future retirees which are tied to the future funded ratios of the plan. The projected actuarial funded ratio in 2043 with these changes was 100.7 percent.

In April 2011, the ERB voted to change its assumed rate of return on the pension fund’s investments from 8.0 percent to 7.75 percent. As of June 30, 2016, the actuarial value of assets was \$11.5 billion and the unfunded accrued actuarial liability (“UAAL”) was \$6.6 billion. Other changes were made to the ERB’s actuarial assumptions in April 2011, the most significant of which included: changing the funding method to traditional individual entry age normal; revising post-retirement mortality to reflect slightly longer life expectancy; changing retirement rates at ages 65 and 69 and with 25 or more years of service; decreasing salary increases for members with 10 or more years of service; and decreasing membership growth assumptions. The combined effect of the changes in actuarial assumptions, including to the assumed investment return rate, increased the UAAL by \$426.1 million at that time. In April 2013, the ERB made further changes to its assumptions regarding post-retirement, disabled, and active mortality rates, retirement rates, changes to its service-based termination table and decreases in wage inflation from 4.75 percent to 4.25 percent and in the payroll growth from 3.75 percent to 3.50 percent. These changes reduced the June 30, 2013 UAAL by \$81.5 million. In June 2015, the ERB voted to further lower the wage inflation assumption from 4.25 percent to 3.75 percent, to adopt a generational mortality projection to better reflect future longevity improvements, to remove its population growth assumption for projections and to make minor changes to several demographic assumptions.

In April 2017, following a six-year experience study ending June 30, 2016, the ERB voted to decrease the inflation assumption from 3.00 percent to 2.50 percent. This change resulted in the decrease in the assumed rate of return on the pension fund’s investments from 7.75 percent to 7.25 percent although the real rate of return remained at 4.75 percent. The assumed rate of return is composed of the 2.50 percent assumed inflation rate plus the 4.75 percent assumed real return. Other changes were made to the ERB’s actuarial assumptions in April 2017 including decreasing payroll growth assumption from 3.50 percent to 3.00 percent and decreasing the annual assumed COLA from 2.00 percent to 1.90 percent. These assumptions were adopted as of June 30, 2017. The combined effect of changes in actuarial assumptions increases the UAAL from \$6.6 billion to \$7.4 billion.

The change in the assumed rate of return was recommended by the ERB’s outside actuaries and was made after consultations with the ERB’s internal investment staff and its general investment consultant. The ERB will continue to monitor both its investment returns and general market conditions and may again change its assumed rate of return as market conditions and experience warrant.

As of June 30, 2016, the UAAL had an amortization period of 45.0 years. The amortization period, also referred to as the funding period, is a calculation based on actuarial models of the period required to amortize the UAAL, assuming ERB’s experience exactly follows actuarial assumptions. The calculation is based on current contribution rates which are established by State statute. Fiscal Year 2017 data were not available at the time of publication.

Schedule of Statutorily-Mandated Contribution Rates

| Wage Category | Fiscal Year(s) | Date Range | Member Rate | Employer Rate | Total |
|---------------|----------------|-----------------------|-------------|---------------|--------|
| \$20k or less | 2010–2013 | 07/01/2009–06/30/2013 | 7.90% | 12.40% | 20.30% |
| | 2014 | 07/01/2013–06/30/2014 | 7.90% | 13.15% | 21.05% |
| | 2015–Future | 07/01/2014–Future | 7.90% | 13.90% | 21.80% |
| Over \$20k | 2010–2011 | 07/01/2009–06/30/2011 | 9.40% | 10.90% | 20.30% |
| | 2012 | 07/01/2011–06/30/2012 | 11.15% | 9.15% | 20.30% |
| | 2013 | 07/01/2012–06/30/2013 | 9.40% | 10.90% | 20.30% |
| | 2014 | 07/01/2013–06/30/2014 | 10.10% | 13.15% | 23.25% |
| | 2015–Future | 07/01/2014–Future | 10.70% | 13.90% | 24.60% |

Source: NMSA 1978, Section 22-11-21 (2013).

In addition, New Mexico universities and colleges make an additional contribution of 3 percent of the salary of those employees who elect to participate in the Alternative Retirement Plan (“ARP”), a defined contribution retirement plan available to certain faculty and professional employees, to satisfy the UAAL attributable to participation in the ARP.

The ERB implemented Governmental Accounting Standards Board (“GASB”) Statement 67 requirements with its June 30, 2013 financial statements. GASB Statement 67 requires ERB to report net pension liability (“NPL”) which is measured as total pension liability less the amount of the plan’s fiduciary net position. GASB 67 replaced GASB 25 which had required ERB to report the annual required contribution of the employer (“ARC”) and the percentage of the ARC contributed. ERB meets 100 percent of its statutorily required employer contributions annually. The following table lists the ARC, NPL and the ERB funded ratio for Fiscal Years 2011 through 2016. Fiscal Year 2017 data were not available at the time of publication.

ERB Funded Ratio

| Fiscal Year | Annual Required Contribution (GASB 25) | Net Pension Liability (GASB 67) | Funded Ratio |
|-------------|--|---------------------------------|--------------|
| 2011 | \$377,884,749 | -- | 63.0% |
| 2012 | \$400,461,343 | -- | 60.7 |
| 2013 | -- | \$6,276,852,149 | 60.1 |
| 2014 | -- | \$5,705,730,813 | 63.1 |
| 2015 | -- | \$6,477,266,299 | 63.7 |
| 2016 | -- | \$7,196,433,561 | 64.2 |

Source: Educational Retirement Board.

The ERB also implemented GASB Statement 68 early with its June 30, 2014 financial statements. GASB 68 requires the plan’s participating employers to recognize their pro rata share of NPL on their balance sheets.

In July 2012, the ERB adopted goals of achieving a 95 percent, plus or minus 5 percent, funded ratio by 2040. The amendments to the Educational Retirement Act made through enactment of Senate Bill 115 (Chapter 61, Laws 2013) are intended to assist the ERB in achieving these goals.

ERB pensions are adjusted annually by a COLA beginning on the later of either July 1 of the year in which a member reaches age 65 or July 1 following the year a member retires. Senate Bill 115 reduces the amount of the COLA until ERB is 100 percent funded. The amount of the adjustment is determined by the change in the Consumer Price Index (“CPI”), the retiree’s pension amount and the retiree’s service credit. Pensions cannot be decreased if there is a decrease in the CPI.

In December 2013, the Supreme Court of New Mexico, in *Bartlett v. Cameron*, 2014-NMSC-002, rejected the claims of certain retired teachers, professors and other public education employees challenging the state constitutionality of Senate Bill 115 to the extent that it reduces the future amounts that all education retirees might receive as an annual COLA. The court held that Article XX Section 22 of the State Constitution did not grant the retirees a right to an annual COLA based on the formula in effect on the date of their retirement. The court held that any future COLA to a retirement benefit is merely a year-to-year expectation that, until paid, does not create a property right under the State Constitution. Once paid, the COLA by statute becomes part of the retirement benefit and a property right subject to those constitutional protections.

The Public Employees Retirement Association-Historic Financial Information. PERA had 48,693 active members as of June 30, 2016. As of June 30, 2016, the total market value of PERA Fund was \$15.182 billion. The Fiscal Year 2016 PERA total fund investment return was 0.7 percent. As of May 31, 2017, the total market value of the PERA fund was \$15.05 billion. Fiscal Year 2017 data were not available at the time of publication.

The PERA Board performs annual actuarial valuations of the retirement Funds it administers. Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund as of June 30, 2016.

In May 2015, PERA actuaries conducted an experience study, testing actuarial assumptions currently used in its valuations. The PERA Board accepted the actuary’s revised assumptions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 3.0 percent per annum and real rate of return rate of 4.75 percent, reflecting an investment rate of return of 7.75 percent. The Board also adopted reduced wage inflation and payroll growth assumptions of 3.5 percent, each compounded annually, as well as revised retirement and mortality assumptions.

In 2016, the PERA Board adopted a select and ultimate rate of return assumption for funding purposes. The change in the assumed rate of return was recommended by the PERA’s outside actuaries and was made after consultations with the PERA’s internal investment staff and its general investment consultant. The rate is 7.25 percent for the first 10 years (select period) and 7.75 percent for all other years (ultimate). The equivalent blended rate is 7.48 percent and will be used as the discount rate used to measure the total pension liability. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan’s fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB Statement No. 67. Therefore, the 7.48 percent assumed long-term expected rate of return on pension plan investments will be applied to all periods of projected benefit payments to determine the total pension liability.

PERA member and employer contribution rates are established by State statute. In 2013, the Legislature amended the PERA Act to increase the employer contribution rate of 0.4 percent beginning July 1, 2014, and to increase member contribution rates by 1.5 percent beginning July 1, 2013.

Actuarial information for each fund as of June 30, 2016 is shown in the table below.

**Summary of State Retirement Funds Managed by PERA
(Dollars in thousands)**

| | <u>PERA⁽¹⁾</u> | <u>Judicial</u> | <u>Magistrate</u> | <u>VFF</u> | <u>Legislative</u> |
|--|---------------------------|-----------------|-------------------|-------------|--------------------|
| Membership | 100,974 | 307 | 179 | 9,418 | 320 |
| <u>Actuarial Information</u> | | | | | |
| Accrued Liability ⁽²⁾ | \$19,474,241 | \$146,935 | \$53,547 | \$ 45,256 | \$ 27,943 |
| Actuarial Value of Assets ⁽³⁾ | \$14,654,814 | \$ 90,471 | \$33,060 | \$ 64,900 | \$ 40,451 |
| Unfunded (Overfunded) Accrued Liability | \$ 4,819,427 | \$ 56,464 | \$20,487 | \$ (19,643) | \$ (12,508) |
| Present Value of Statutory Obligations | \$21,951,183 | \$163,711 | \$57,580 | \$ 50,590 | \$ 30,496 |

⁽¹⁾ Includes both the state and municipal divisions.

⁽²⁾ Includes the accrued liability of both the retired and active members.

⁽³⁾ The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to a 7.25 annually for the first 10 years and 7.75 thereafter percent annual return are smoothed over a four-year period.

Source: Public Employees Retirement Association.

As of June 30, 2016, PERA has an amortization or funding period of 56 years, based on the employer and member contribution rates in effect as of July 1, 2016. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-142 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 75.3 percent as of June 30, 2016 and the UAAL of the PERA Fund increased \$108 million to approximately \$4.8 billion. The State's portion of the UAAL of the PERA Fund is 52.9 percent, or \$2.5 billion. Prior to 2013 pension reform, the funded ratio was 65.3 percent and the UAAL of the PERA Fund was calculated to be approximately \$6.2 billion. The primary cause of the slight increase in the funded ratio is due to use of pensionable wages and the increase in accrued actuarial liability is reflective of the lower than expected investment return from the 2016 plan years. On a market value basis, PERA's funded ratio is approximately 69.18 percent as of June 30, 2016. Current 30-year projections indicate the PERA Fund will be 76.8 percent funded in 2043.

In 2016, PERA implemented GASB 67 for the third year. PERA will also produce an audited Schedule of Employer Allocations and Pension Amounts in the winter of 2017 to assist its employer participants in implementing GASB 68. GASB 68 requires participating local governments to recognize their pro rata share of net pension liability ("NPL") and other pension elements in the face of their financial statements. The total NPL as of June 30, 2016, for the PERA Fund allocated to its nearly 200 cost sharing employers that participate in the Fund is approximately \$6.2 billion. Fiscal Year 2017 data were not available at the time of publication.

In 2015, PERA completed the Schedule of Employer Allocations required by GASB 68 and provided local governments with the allocation percentage necessary to derive an employer's proportionate share of the collective NPL as of June 30, 2014. This information assisted GASB 68 implementers in implementing GASB 68 for the first time in 2015. PERA continues to provide statewide outreach and assistance to local governments to ensure local governments continue to receive pertinent allocation information required by GASB 67 and 68.

The following table lists the funded ratios for each individual PERA fund for Fiscal Years 2012 through 2016. Fiscal Year 2017 data were not available at the time of publication.

Funded Ratio of State Retirement Funds Managed by PERA

| Fiscal Year | PERA | Judicial | Magistrate | VFF | Legislative |
|--------------------|-------------|-----------------|-------------------|------------|--------------------|
| 2012 | 65.3% | 51.0% | 53.2% | 167.9% | 91.8% |
| 2013 | 72.9 | 55.7 | 58.4 | 138.2 | 115.2 |
| 2014 | 75.8 | 64.2 | 64.5 | 139.7 | 129.3 |
| 2015 | 74.9 | 62.5 | 62.4 | 140.2 | 138.5 |
| 2016 | 75.3 | 61.6 | 61.7 | 143.4 | 144.8 |

Source: Public Employees Retirement Association.

Recent legislative changes enacted during the 2009 through 2016 legislative sessions also amended various provisions of the Public Employees Retirement act to improve the long-term stability of the fund. House Bill 573 (Chapter 288, Laws 2009) included training requirements for members of the PERA board. House Bill 854 (Chapter 125, Laws 2009) modified employer and employee contributions to the State’s retirement funds for Fiscal Years 2010 and 2011, shifting 1.5 percent of the annual contribution rate from employers to employees for those employees with a full-time equivalent salary greater than \$20,000. House Bill 628 (Chapter 178, Laws 2011) extended the existing 1.5 percent shift made in House Bill 854 through Fiscal Year 2013 and shifted an additional 1.75 percent of the annual contribution rate from employers to employees for Fiscal Year 2012. The additional 1.75 percent of the annual contribution rate shifted back from the employees to the employers for Fiscal Year 2013. The 1.5 percent contribution shift from the employers to the employees remained in place through Fiscal Year 2013. House Bill 628 also required an actuarial study by PERA prior to September 20, 2013 to analyze whether contribution rate changes have had an adverse actuarial effect on the retirement systems.

Senate Bill 27 (Chapter 225, Laws 2013) significantly amended the Public Employees’ Retirement Act by creating a new tier of reduced benefits for new hires. The law reduces the cost of living adjustments for all current and future retirees; delays the application of cost of living adjustments for certain future retirees; suspends the cost of living adjustments for certain return-to-work retirees; provides for an increase in the statutory employee contribution rate of 1.5 percent (subject to certain requirements) for employees earning \$20,000 or more in annual salary; provided for an increase in the statutory employer contribution of 0.4 percent beginning in Fiscal Year 2015; increased age and service requirements; lengthened the base average salary calculation amount from three to five years for Tier 2 employees; increases the vesting period for employees from five to eight years for most Tier 2 members; lowered the annual service credit by 0.5 for most members; and makes several other clarifying and technical changes.

Legislative changes enacted during the 2014 legislative session amended sections of the law relating to the judicial and magistrate retirement funds and followed many of the changes implemented in the 2013 legislative session for the public employees’ and educational retirement funds.

House Bill 33 (Chapter 35, Laws 2014) amended the Judicial Retirement Act. Among other things, the law suspended for two years and makes adjustments to cost of living increases, adjusted employee and employer contributions, required mandatory participation in the fund and implemented changes to the benefits structure.

House Bill 216 (Chapter 39, Laws 2014) amended the Magistrate Retirement Act. Among other things, the law suspended for two years and makes adjustments to cost of living increases, adjusted employee and employer contributions, required mandatory participation and implemented changes to the benefit structure. Senate Bill 160 (Chapter 43, Laws 2014) also made changes to the Magistrate Retirement Act. This law duplicated the changes made in House Bill 216.

During the 2016 2nd Second Special Session, the State's distribution to the legislative retirement fund from \$200,000 a month to \$75,000 a month, thus reducing the annual contribution from \$2.4 million to \$900,000. PERA's funded ratio is expected to increase from 75.3 percent to 76.8 percent by 2043, assuming the Plan meets all of its economic and demographic assumptions.

During the State of New Mexico (53rd Legislature) Special Session in 2017, House Bill 2 was passed that suspended the State's distribution to the legislative retirement fund for two consecutive years (Fiscal Year 2018 and Fiscal Year 2019). Beginning July 1, 2019, the monthly distribution of \$75,000 to fund the legislative retirement coverage plan will resume, for a total annual contribution of \$900,000.

New Mexico Retiree Health Care Authority-Historic Financial Information. The NMRHCA was enacted for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service positions in the State and their eligible dependents. NMRHCA offers both pre Medicare and Medicare plans, as well as unsubsidized dental, vision and life insurance plans to eligible participants. As of July 2016, there were approximately 60,000 enrolled members and approximately 300 participating public entities. Fiscal Year 2017 data were not available at the time of publication.

NMRHCA's long-term investments struggled in Fiscal Year 2016 as the 1-year rate of return was -0.58 percent as of June 30, 2016 and the 5-year rate of return fell to 5.31 percent. Rates of return for Fiscal Year 2017 are not yet available for the entire year, but the rates of return improved as the 1-year rate of return was 12.10 percent for the period ending March 31, 2017, and the 5-year rate of return increased to 7.28 percent. An independent allocation analysis of the investment portfolio projects a 7 percent rate of return over the next 5 to 7 year period. In addition, NMRHCA has added over \$226 million to its trust fund over the past seven years. NMRHCA's trust fund balance as of April 30, 2017 was \$544 million.

The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished or extinguished by the Legislature, and that the Act does not create any contract, trust or other rights in public employees to health care benefits.

NMRHCA, the agency that administers the Retiree Health Care Act, has a revenue base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions from enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund ("TAA Fund"). Employer and employee contribution rates are established in statute as is the amount distributed from the TAA Fund. Respective employer and employee contribution rates are 2 percent and 1 percent of the participating employee's salary for Fiscal Years 2016 and 2017.

Based on the GASB Statement 43 valuation for Fiscal Year 2016, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust using a discount rate of 5 percent, the UAAL has been calculated to be approximately \$3.8 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. However, beginning in Fiscal Year 2017, NMRHCA will begin reporting under the new standards created under GASB 74, which is replacing GASB 43.

The NMRHCA continues to look for additional opportunities to further strengthen the financial standing of the NMRHCA. The NMRHCA Board of Directors has passed a five-year solvency plan to ensure the long term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and their employers. In addition to increased

retiree cost sharing through plan design changes, the solvency plan calls for proportionately higher premiums for retirees who retired younger (decreased premium subsidies to pre-Medicare retirees) or did not work or pay into the system as long (increasing years of service required to receive maximum subsidy) and decreased subsidies for family members. Combined, these actions are expected to further improve the financial condition of the trust fund by increasing revenues and reducing future liabilities.

As of June 30, 2016, the NMRHCA program had a 20-year projected solvency (period of positive fund balance). However, Senate Bill 7 (Chapter 1, Laws 2016) passed during the 2016 2nd Special Session changes the distribution received from the Tax Administration Suspense Fund, reducing projected revenues by a cumulative \$250 million effectively reducing the solvency period by approximately 3 years. NMRHCA will conduct another solvency study before the end of Fiscal Year 2017 to measure the full impact of the amended law.

Currently, GASB Statement 43 requires the NMRHCA to report its ARC and the percentage of the ARC contributed. The following table lists the NMRHCA ARC and percentage of the ARC contributed for Fiscal Years 2012 through 2016. Fiscal Year 2017 data were not available at the time of publication.

NMRHCA Annual Required Contribution

| Fiscal Year | Annual Required Contribution | Percentage Contributed |
|--------------------|-------------------------------------|-------------------------------|
| 2012 | \$340,074,787 | 41.77% |
| 2013 | 353,657,828 | 38.28 |
| 2014 | 367,804,141 | 40.59 |
| 2015 | 292,656,765 | 53.53 |
| 2016 | 303,631,394 | 52.65 |

Source: New Mexico Retiree Health Care Authority.

Recent legislative changes enacted during the 2009 through 2015 legislative sessions also amended various provisions of the New Mexico Retiree Health Care Act to improve the long-term stability of the fund. House Bill 573 (Chapter 288, Laws 2009) increased payroll contributions by employers and employees to the New Mexico Retiree Health Care Fund (the “NMRHCF”). House Bill 351 (Chapter 287, Laws 2009) increased the employer/employee contribution to the NMRHCF from 1.95 percent to 3 percent for most employers and employees. The contribution increase was slightly higher for employees in an enhanced retirement plan. The increase is being phased-in over a four-year period. Due to the passage of this legislation, the NMRHCA estimates that solvency will be extended from approximately 2018 to 2027.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund (“STPF”) was established in the State Treasury in 1973 to receive the residual revenues from the Bonding Fund and serve as an endowment for the State. In 1976, the electorate approved a constitutional amendment giving the STPF constitutional status. In 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the STPF, thereby creating a permanent endowment fund. Distributions from investments of the STPF, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance tax receipts have been the primary source of funding for the STPF. The State Investment Council (“SIC”) invests the corpus and non-appropriated income of the STPF. The market value of the STPF as of June 30, 2016 was

approximately \$4.54 billion, an overall asset decrease of approximately 4.1 percent from the prior fiscal year. Investment performance for the one year period ended June 30, 2016 was 0.44 percent, 0.23 percentage points below the Fund policy index. As of the end of the third quarter of fiscal year 2017, the STPF had returned 9.5 percent net of manager fees, while the Fund's assets grew to \$4.83 billion as of March 31, 2017. Funds on deposit in the STPF are not pledged to and may not be used to pay any severance tax debt. As noted above, during the 2016 Special Legislative Session, Senate Bill 8 allowed the one-time transfer of excess severance tax revenue to the general fund rather than the severance tax permanent fund. This transfer, known as the super sweep, totaled \$28,279,400 million.

The State Land Grant Permanent Fund ("LGPF") is designed solely to benefit the public educational system of the State and other specified institutions. The origins of the LGPF are found in the federal Fergusson Act of 1898, which granted two sections of land in every township for the benefit of the public schools in the territories of New Mexico. Also under this Act, specific acreage was granted to individual education, medical and penal institutions in the territory. The initial grant totaled in excess of 5.5 million acres. In 1910, the Enabling Act granted additional lands to various beneficiaries in New Mexico, including the public schools, which received the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the LGPF), so the current total is nine million surface acres and 13.4 million subsurface acres.

Pursuant to NMSA 1978, Section 19-1-1 (1912), the State Land Office is charged with the custody and disposition of the land granted to the State. The Commissioner of Public Lands sells or leases these properties in accordance with the provisions of the appropriate statutes. The SIC invests the corpus and income of the LGPF. As of June 30, 2016, the market value of the LGPF was approximately \$14.61 billion, an asset decrease of approximately 1.3 percent over the prior fiscal year. Investment performance for the year ended June 30, 2016 was 0.37 percent, and 0.31 percentage points below the LGPF's policy index, and below its annual target rate of return of 7.0 percent. The Council lowered its annual rate of return target from 7.5 percent to 7.0 percent during Fiscal Year 2016, in anticipation of a low-return investment environment. The first three quarters of fiscal year 2017 have thus far seen much improved returns, with the LGPF returning 9.5 percent net of fees for the fiscal year to date. LGPF assets have also grown, rising to \$15.81 billion as of March 31, 2017. The corpus of the LGPF is constitutionally protected from appropriation and LGPF assets are not pledged to and may not be used to pay debt. The LGPF is also protected by the Federal Enabling Act of 1910.

In November 1996, the State electorate approved a constitutional amendment regarding distributions from both of the State's permanent funds. Distributions are now calculated on a total return basis rather than an income distribution method. In addition, distributions to beneficiaries are now based on a formula under which a statutorily specified percentage of the previous average five-year market value of the fund is distributed.

In September 2003, the State electorate approved a constitutional amendment increasing the rate of annual distribution from the LGPF from the previous 4.7 percent, to a new base distribution of 5.0 percent of the LGPF's five-year average market value, beginning in Fiscal Year 2005. Certain additional distributions were made to implement and maintain educational reforms as provided by law. An additional 0.8 percent was distributed in fiscal years 2005 through 2012 and an additional 0.5 percent was distributed in fiscal years 2013 through 2016. In Fiscal Year 2017, the rate was 5.0 percent

In May 2009 an investigation by the New York Attorney General into placement fees paid in relation to investments made by New York pension funds, led to an indictment of an investment advisor to that fund as well as New Mexico SIC and ERB. The investment advisor later pled guilty to a fraud charge relating to investments made by the New York retirement fund. In connection with that plea, the

investment advisor stated that from 2004 to 2009 his business had acted as an advisor to the SIC and the ERB and that, contrary to his fiduciary responsibilities to the SIC and ERB, he ensured recommendations of certain proposed investments pushed on him by politically connected individuals or their associates who stood to benefit financially or politically from the investments, and that the investments were not necessarily in the best interests of the State. No criminal charges were filed by State or federal investigators in New Mexico. In May 2011, the SIC, filed recovery lawsuits against more than a dozen placement agents, the former State Investment Officer, and other individuals, alleging that these individuals improperly benefited from pay-to-play and kickback schemes involving SIC investments. To date, settlements of more than \$38 million have either been deposited to the permanent funds or placed in escrow pending final court approvals. Additional legal recovery efforts are ongoing and a trial is now scheduled for the remaining defendants in 2017.

In response to these and other events and the negative returns suffered by the State's various investment funds during the market turmoil associated with the downturn in the nation's economy in 2008 and 2009, the Board and the Legislative Council Service ("LCS") co-sponsored an Independent Fiduciary and Operational Review of State Investment Policies, Procedures and Practices prepared by Ennis, Knupp & Associates, Inc. (the "Review"). The scope of the work of this Review included, among other things, review and recommendations for appropriate governance and organizational structure, and investment best practices for the SIC and New Mexico's public employee and state educator pensions (PERA & ERB). The findings and recommendations of the Review were reported to the Board at a meeting on January 13, 2010. In order to address certain recommendations of the Review, during the 2010 legislative session the Legislature, among other things, modified the composition of the SIC, clarified the authority of the SIC and the State Investment Officer, provided for the appointment of the State Investment Officer by the SIC and changed the method of appointment of public members of the SIC. Removal of individual investment authorization powers by the Investment Officer alone, and addition of Council Investment, Audit, Governance and legal Committees have greatly improved Council practices and governance procedures. To date, the Investment Council has adopted or accomplished 77 of the 82 recommendations made by EnnisKnupp in their 2010 Operational Review, with the remainder still being considered for partial or full adoption.

Financial Processes and Procedures

State Auditing and Accounting Systems. The financial affairs of every agency in the State are examined and audited annually by the State Auditor, personnel of the State Auditor's office designated by the State Auditor, or by the independent auditors approved by the State Auditor, as required by Section 12-6-3 NMSA 1978. The audits are conducted in accordance with generally accepted governmental auditing standards. The audit reports include financial statements that are presented in accordance with generally accepted governmental accounting principles.

In July 2006, the State implemented a Statewide Human Resources, Accounting and Management Reporting System ("SHARE"). SHARE is an Enterprise Resource Planning system using the widely adopted PeopleSoft software, and it replaced the State's existing central accounting system, central payroll system, personnel system, treasury reconciliation accounting and cashiering system, and 114 additional systems then in place at various State agencies. Since June 2007, the State has officially used SHARE as its book of record.

When originally implemented, SHARE's business processes related to banking activities were not fully developed and the associated system's configuration was incomplete. This resulted in a period when book to bank reconciliations were not performed. A remediation effort undertaken in Fiscal Year 2013 and implemented later that year, developed a process that allowed the Department of Finance and Administration (the "DFA") and the State Treasurer's Office to begin performing monthly book to bank

reconciliations of statewide cash activity on a go-forward basis. After sufficient run time, the Fiscal Year 2015 audit of the State General Fund reported that the reconciliation procedures performed during the fiscal year provided sufficient audit evidence to confirm management's assertion that the financial assets held in the State General Fund Investment Pool were equivalent to the claims on those assets recorded in the general ledger. In Fiscal Year 2016, the State General Fund audit reported that the monthly reconciliation procedures confirmed the continuing consistency of the book and bank value of financial assets and that there were no material differences. Accordingly, a \$100 million contingent liability, initially established in Fiscal Year 2012 and revised in Fiscal Year 2014, was released and all related audit findings closed.

The State of New Mexico Comprehensive Annual Financial Report ("CAFR") was initially audited in Fiscal Year 2013 and released in November 2014. Previous CAFRs were reviewed by an independent auditor. A review of financial statements provides a lower standard of assurance than an audit of financial statements. The Fiscal Year 2013 audited CAFR received a disclaimed opinion and identified the following material weaknesses: (1) book to bank reconciliation; (2) interagency/interfund transactions; (3) government fund type classifications; (4) budget statements; and (5) internal control over financial reporting.

Since the initial audit of the CAFR, the findings related to book to bank reconciliation, governmental fund type classification and budget statement have been addressed and the release of the CAFR has occurred earlier each subsequent year.

However, the issues related to internal transactions, control over financial reporting and timeliness remain. These issues result from a weakness in the existing CAFR process, which aggregates separately issued and audited agency-level financial statements that can employ financial reporting conventions different from those used at the statewide level. While agency accounting practices appear rational at a parochial level, they can be misaligned with those used in the CAFR. The traditional approach employed to address these differences has been to record top-down reclassifications and adjustments; however, that has been considered inappropriate by GASB. Since agency level presentations can differ from the state presentation, it was not possible to rely on the audit opinion of some of the underlying audits used to build the CAFR or to be confident that all necessary adjustments and reclassifications had been made. As a result, the CAFR auditor was unable to obtain sufficient audit evidence to express an opinion on the state's financial statements, even though most agencies received "clean" opinions on their individual audits. These concerns have been discussed thoroughly with the independent auditing firm and the Office of the State Auditor and efforts are underway to address divergent practices and move towards a unified annual audit.

State Budgetary and Appropriation Process. All State agencies are required by Section 6-3-19 NMSA 1978 to submit completed budget forms to the DFA Budget Division by September 1 of each year. Guidelines and forms are provided to State agencies in advance of the September 1 deadline. Budget hearings to examine the merits of budget requests are scheduled through the fall and are usually completed by mid-December. The DFA Budget Division presents comprehensive budget recommendations to the Governor, as required by Section 6-3-15(B) NMSA 1978.

The Governor is required by Section 6-3-21 NMSA 1978 to submit a budget for the upcoming fiscal year to the Legislature in early January. The Governor's budget includes the executive recommendations for public education; higher education; State agencies; and historical information on prior expenditures, revenues and revenue projections, among other information. The State budget is contained in a General Appropriation Act, which also may contain proposals for supplemental and deficiency appropriations for the current fiscal year.

Upon passage by the Legislature, the Governor may sign the General Appropriation Act, veto it, veto line items or veto parts of it. After the Governor has signed the General Appropriation Act, the DFA Budget Division approves the agency budgets and monitors the expenditure of the funds beginning on July 1, the first day of the fiscal year.

State Treasurer's Investment Responsibilities

Pursuant to Sections 6-10-10(I) through 6-10-10(O) NMSA 1978, the State Treasurer, with the advice and consent of the State Board of Finance, may invest money not immediately needed for government operations. These investment responsibilities are conducted in accordance with the State Treasurer's Investment Policy (the "Investment Policy") which is adopted by the State Treasurer and approved by the State Board of Finance. The Investment Policy states that in keeping with the office's fiduciary responsibility, all investment decisions made by the State Treasurer will adhere to the following three fundamental principles: safety, liquidity and return. The Investment Policy applies to all financial assets of the State invested by the Treasurer in the exercise of the Treasurer's statutory authority or invested as directed by other agencies which have specific investment authority and for which the Treasurer acts as the investing authority. The State Treasurer is the investing authority for the State's General Fund Investment Pool, the Local Government Investment Pool, Bond Proceeds Investment Pools, the Severance Tax Bonding Fund and bond debt service funds.

The State Treasurer's Office is in the process of implementing the PeopleSoft Treasury Management Module of the SHARE system concurrent with the upgrade of the overall system to version 9.2. This module will eliminate a separate investment accounting platform and will integrate investment activity into the State's general ledger. The system is also anticipated to provide the State Treasurer's Office with additional controls and improved financial reporting. The implementation and upgrade are anticipated to be completed in October 2017.

According to the Investment Policy, the State Treasurer's Investment Committee is appointed by the State Treasurer and the Board. The Investment Committee is an advisory committee that reviews investment reporting and any other matters of the State Treasurer's choosing. The Investment Committee consists of five voting members: the State Treasurer or designee; the State Treasurer's Chief Investment Officer, who serves as Investment Committee Chair; the Director of the State Board of Finance or designee; and two additional members. These additional members must be participants in the private investment community or have expert knowledge or professional experience in public finance or public money investing. One member is appointed by the State Treasurer and approved by the Board and one member is appointed by the Board and approved by the State Treasurer.

In addition to the Investment Committee oversight and recommendations, the State Treasurer contracts with an independent investment advisor to provide guidance and advice on investments, market conditions and benchmarks. The investment advisor provides quarterly performance reports on all of the State Treasurer's portfolios and information relating to the economic outlook and market trends.

Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the 2010 United States Census was 2,059,179. From 2000 to 2010, the State's population grew 13.2 percent, while the national population grew 9.7 percent.

There are four Metropolitan Statistical Areas ("MSAs") in the State. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Tarrant and Valencia Counties; the Las Cruces MSA is comprised of Doña Ana County; the Santa Fe MSA is comprised of Santa Fe County; and the Farmington MSA is

comprised of San Juan County. The following table sets forth information on population growth in New Mexico and nationally.

**Population New Mexico and the United States
2007-2016**

| Year⁽¹⁾ | Population⁽²⁾ | | Annual Percentage Change | |
|---------------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| | New Mexico | United States | New Mexico | United States |
| 2007 | 1,966,357 | 301,231,207 | -- | -- |
| 2008 | 1,984,179 | 304,093,966 | 0.9% | 1.0% |
| 2009 | 2,007,315 | 306,771,529 | 1.2 | 0.9 |
| 2010 | 2,059,179 | 308,745,538 | 2.6 | 0.6 |
| 2011 | 2,078,226 | 311,718,857 | 0.9 | 1.0 |
| 2012 | 2,084,792 | 314,102,623 | 0.3 | 0.8 |
| 2013 | 2,086,890 | 316,427,395 | 0.1 | 0.7 |
| 2014 | 2,085,567 | 318,907,401 | (0.1) | 0.8 |
| 2015 | 2,085,109 | 321,418,820 | (0.0) | 0.8 |
| 2016 | 2,081,015 | 323,127,513 | (0.2) | 0.5 |

⁽¹⁾ As of July 1 (except for 2010 data which is as of April 1). Except for 2010 data, population figures are stated as intercensal estimates.

⁽²⁾ All estimates are subject to change.

Source: U.S. Census Bureau, Population Division, 2007-2009 released September 2011; 2010-2016 released December 2016.

Major industries in the State include oil and natural gas production, tourism and retail, healthcare, government and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are a notable part of the State's economy. Currently, lower global oil prices are negatively impacting mining and industries that serve the mining industry. In 2015, the largest employment sector in the State was government (comprising approximately 19.0 percent of the State's workforce), followed, in order, by health care and social assistance; retail trade; accommodation and food services; and professional, scientific and technical services. For the twelve-month period ended December 31, 2015, total average employment in the State increased by 1.3 percent as compared to the same twelve-month period ending December 31, 2014. The following table sets forth information on employment by industry over the period of 2006 through 2015, the most recent figures available as of June 2017.

Total New Mexico Full-time and Part-time Employment by North American Industry Classification System 2006-2015

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Growth 2014-2015 | Growth 2006-2015 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------------|-----------------------------|
| Total employment | 1,080,732 | 1,105,413 | 1,107,869 | 1,075,660 | 1,060,716 | 1,065,291 | 1,067,757 | 1,075,867 | 1,082,277 | 1,095,949 | 1.3% | 1.4% |
| Wage and salary employment | 868,518 | 878,592 | 81,856 | 849,122 | 837,320 | 837,281 | 839,789 | 846,896 | 852,861 | 859,738 | 0.8 | -1.0 |
| Proprietors employment | 212,214 | 226,821 | 226,013 | 226,538 | 223,396 | 228,010 | 227,968 | 228,971 | 229,416 | 236,211 | 3.0 | 11.3 |
| Farm proprietors employment | 15,255 | 18,193 | 18,041 | 18,270 | 19,083 | 20,715 | 21,436 | 21,547 | 21,322 | 21,311 | -0.1 | 39.7 |
| Nonfarm proprietors employment | 196,959 | 208,628 | 207,972 | 208,268 | 204,313 | 207,295 | 206,532 | 207,424 | 208,094 | 214,900 | 3.3 | 9.1 |
| Farm employment | 22,829 | 25,804 | 24,702 | 25,228 | 25,630 | 27,323 | 28,370 | 29,218 | 28,111 | 28,772 | 2.4 | 26.0 |
| Nonfarm employment | 1,057,903 | 1,079,609 | 1,083,167 | 1,050,432 | 1,035,086 | 1,037,968 | 1,039,387 | 1,046,649 | 1,054,166 | 1,067,177 | 1.2 | 0.9 |
| Private employment | 843,571 | 869,670 | 869,872 | 834,214 | 817,651 | 824,157 | 827,488 | 835,812 | 844,809 | 858,620 | 1.6 | 1.8 |
| Forestry, fishing and related activities ⁽²⁾ | 5,131 | 5,161 | 5,293 | 5,287 | 5,200 | 5,237 | 5,138 | 5,247 | 5,682 | 5,884 | 3.6 | 14.7 |
| Mining ⁽³⁾ | 23,632 | 24,913 | 28,331 | 24,467 | 27,049 | 28,362 | 34,232 | 36,831 | 38,198 | 35,898 | -6.0 | 51.9 |
| Utilities | 4,211 | 4,538 | 4,666 | 4,873 | 4,637 | 4,554 | 4,583 | 4,667 | 4,591 | 4,573 | -0.4 | 8.6 |
| Construction ⁽⁴⁾ | 79,756 | 80,578 | 77,980 | 67,247 | 61,314 | 59,382 | 58,032 | 59,248 | 59,713 | 60,555 | 1.4 | -24.1 |
| Manufacturing | 42,863 | 42,818 | 40,671 | 36,587 | 34,587 | 35,750 | 35,771 | 35,469 | 34,032 | 34,076 | 0.1 | -20.5 |
| Durable goods manufacturing ⁽⁵⁾ | 29,961 | 29,770 | 28,091 | 24,485 | 23,086 | 23,698 | 23,217 | 22,553 | 21,241 | 20,935 | -1.4 | -30.1 |
| Nondurable goods manufacturing ⁽⁶⁾ | 12,902 | 13,048 | 12,580 | 12,102 | 11,501 | 12,052 | 12,554 | 12,916 | 12,791 | 13,141 | 2.7 | 1.9 |
| Wholesale trade | 29,430 | 29,015 | 28,755 | 26,698 | 26,921 | 26,513 | 26,486 | 26,694 | 27,496 | 28,567 | 3.9 | -2.9 |
| Retail trade ⁽⁷⁾ | 116,789 | 119,034 | 118,204 | 114,095 | 110,475 | 111,583 | 111,908 | 112,808 | 114,086 | 115,724 | 1.4 | -0.9 |
| Transportation and warehousing ⁽⁸⁾ | 25,906 | 27,435 | 26,703 | 24,361 | 23,430 | 24,333 | 25,361 | 25,505 | 25,846 | 26,447 | 2.3 | 2.1 |
| Information ⁽⁹⁾ | 18,451 | 18,879 | 18,971 | 17,497 | 17,130 | 16,508 | 16,473 | 16,059 | 15,723 | 16,006 | 1.8 | -13.3 |
| Finance and insurance ⁽¹⁰⁾ | 32,407 | 33,829 | 34,633 | 36,035 | 34,660 | 35,632 | 35,138 | 34,903 | 34,602 | 34,612 | 0.0 | 6.8 |
| Real estate and rental and leasing ⁽¹¹⁾ | 39,542 | 41,944 | 41,498 | 39,685 | 39,500 | 39,760 | 38,275 | 38,513 | 39,253 | 40,479 | 3.1 | 2.4 |
| Professional, scientific and technical services | 74,398 | 82,057 | 82,138 | 80,457 | 78,439 | 77,591 | 76,152 | 75,940 | 76,094 | 77,546 | 1.9 | 4.2 |
| Management of companies and enterprises | 6,419 | 6,072 | 5,908 | 5,566 | 5,380 | 5,491 | 5,449 | 5,503 | 5,632 | 5,814 | 3.2 | -9.4 |
| Administrative and waste services ⁽¹²⁾ | 58,480 | 60,437 | 60,327 | 55,868 | 54,315 | 54,746 | 53,440 | 54,622 | 54,418 | 54,184 | -0.4 | -7.3 |
| Educational services | 15,952 | 15,801 | 15,988 | 16,363 | 16,814 | 16,280 | 16,152 | 16,404 | 16,716 | 17,553 | 5.0 | 10.0 |
| Health care and social assistance ⁽¹³⁾ | 107,985 | 111,857 | 114,850 | 118,169 | 119,533 | 121,675 | 123,264 | 123,782 | 124,943 | 129,672 | 3.8 | 20.1 |
| Arts, entertainment and recreation ⁽¹⁴⁾ | 21,943 | 23,000 | 23,352 | 23,308 | 23,110 | 23,142 | 23,722 | 23,743 | 24,052 | 24,885 | 3.5 | 13.4 |

| | | | | | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------|------|
| Accommodation and food services ⁽¹⁵⁾ | 84,498 | 85,156 | 84,057 | 81,759 | 81,222 | 82,391 | 83,232 | 85,532 | 88,375 | 90,601 | 2.5 | 7.2 |
| Other services, except public administration ⁽¹⁶⁾ | 55,778 | 57,146 | 57,547 | 55,892 | 53,935 | 55,227 | 54,680 | 54,342 | 55,357 | 55,544 | 0.3 | -0.4 |
| Government and government enterprises ⁽¹⁷⁾ | 214,332 | 209,939 | 213,295 | 216,218 | 217,435 | 213,811 | 211,899 | 210,837 | 209,357 | 208,557 | -0.4 | -2.7 |

⁽¹⁾ Most recent data available.

⁽²⁾ The “Forestry, fishing and related activities” category includes: forestry and logging; fishing, hunting and trapping; and support activities for agriculture and forestry.

⁽³⁾ The “Mining” category includes: oil and gas extraction; mining (except oil and gas); and support activities for mining.

⁽⁴⁾ The “Construction” category includes: construction of buildings; heavy and civil engineering construction; and specialty trade contractors.

⁽⁵⁾ The “Durable goods manufacturing” category includes: wood product manufacturing; nonmetallic mineral product manufacturing; primary metal manufacturing; fabricated metal product manufacturing; machinery manufacturing; computer and electronic product manufacturing; electrical equipment, appliance, and component manufacturing; motor vehicles, bodies and trailers, and parts manufacturing; other transportation equipment manufacturing; furniture and related product manufacturing; and miscellaneous manufacturing.

⁽⁶⁾ The “Nondurable goods manufacturing” category includes: food manufacturing; beverage and tobacco product manufacturing; textile mills; textile product mills; apparel manufacturing; leather and allied product manufacturing; paper manufacturing; printing and related support activities; petroleum and coal products manufacturing; chemical manufacturing; and plastics and rubber products manufacturing.

⁽⁷⁾ The “Retail trade” category includes: motor vehicle and parts dealers; furniture and home furnishings stores; electronics and appliance stores; building material and garden equipment and supplies dealers; food and beverage stores; health and personal care stores; gasoline stations; clothing and clothing accessories stores; sporting goods, hobby, musical instrument, and book stores; general merchandise stores; miscellaneous store retailers; and nonstore retailers.

⁽⁸⁾ The “Transportation and warehousing” category includes: air transportation; rail transportation; water transportation; truck transportation; transit and ground passenger transportation; pipeline transportation; scenic and sightseeing transportation; support activities for transportation; couriers and messengers; and warehousing and storage.

⁽⁹⁾ The “Information” category includes: publishing industries (except Internet); motion picture and sound recording industries; broadcasting (except Internet); Internet publishing and broadcasting; telecommunications; data processing, hosting, and related services; and other information services.

⁽¹⁰⁾ The “Finance and insurance” category includes: monetary authorities-central bank; credit intermediation and related activities; securities, commodity contracts, and other financial investments and related activities; insurance carriers and related activities; and funds, trusts and other financial vehicles.

⁽¹¹⁾ The “Real estate and rental and leasing” category includes: real estate; rental and leasing services; and lessors of nonfinancial intangible assets (except copyrighted works).

⁽¹²⁾ The “Administrative and waste services” category includes: administrative and support services; and waste management and remediation services.

⁽¹³⁾ The “Health care and social assistance” category includes: ambulatory health care services; hospitals; nursing and residential care facilities; and social assistance.

⁽¹⁴⁾ The “Arts, entertainment and recreation” category includes: performing arts, spectator sports, and related industries; museums, historical sites, and similar institutions; and amusement, gambling and recreation industries.

⁽¹⁵⁾ The “Accommodation and food services” category includes: accommodation; and food services and drinking places.

⁽¹⁶⁾ The “Other services, except public administration” category includes: repair and maintenance; personal and laundry services; religious, grantmaking, civic, professional, and similar organizations; and private households.

⁽¹⁷⁾ The “Government and government enterprises” category includes: federal, civilian; military; and state and local governments.

Source: Regional Economic Information System, Bureau of Economic Analysis, Last Revised: September 2016.

The following tables set forth selected additional economic and demographic data with respect to the State.

Employment and Labor Force
New Mexico and the United States
2008 – 2017
(numbers in thousands)⁽¹⁾

| Year | Civilian Labor Force | | Number of Employed | | Unemployment Rate | | |
|---------------------|----------------------|---------------|--------------------|---------------|-------------------|---------------|------------------------|
| | New Mexico | United States | New Mexico | United States | New Mexico | United States | N.M. as % of U.S. Rate |
| 2008 | 945 | 154,655 | 902 | 143,369 | 4.5% | 7.3% | 61.6% |
| 2009 | 940 | 153,111 | 869 | 138,013 | 7.5 | 9.9 | 75.8 |
| 2010 | 936 | 153,650 | 860 | 139,301 | 8.1 | 9.3 | 87.1 |
| 2011 | 930 | 153,995 | 860 | 140,902 | 7.5 | 8.5 | 88.2 |
| 2012 | 929 | 155,628 | 863 | 143,330 | 7.1 | 7.9 | 89.9 |
| 2013 | 924 | 155,151 | 859 | 144,741 | 7.0 | 6.7 | 104.5 |
| 2014 | 921 | 156,238 | 859 | 147,521 | 6.7 | 5.6 | 119.6 |
| 2015 | 920 | 157,957 | 859 | 150,030 | 6.6 | 5.0 | 132.0 |
| 2016 | 929 | 159,640 | 866 | 152,111 | 6.7 | 4.7 | 145.6 |
| 2017 ⁽²⁾ | 936 | 159,784 | 873 | 152,923 | 6.7 | 4.3 | 155.8 |

⁽¹⁾ Figures rounded to nearest thousand.

⁽²⁾ April 2017.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Last Revised: United States as of June 5, 2017.

Personal Income
New Mexico and the United States
2007 – 2016

| Year | Personal Income (Dollars in thousands) | | Annual Percentage Change | |
|------|--|------------------|--------------------------|---------------|
| | New Mexico | United States | New Mexico | United States |
| 2007 | \$63,091,733 | \$11,995,419,000 | -- | -- |
| 2008 | 67,250,834 | 12,492,705,000 | 6.6% | 4.1% |
| 2009 | 66,243,018 | 12,079,444,000 | (1.5) | (3.3) |
| 2010 | 68,361,950 | 12,459,613,000 | 3.2 | 3.1 |
| 2011 | 72,175,501 | 13,233,436,000 | 5.6 | 6.2 |
| 2012 | 73,822,778 | 13,904,485,000 | 2.3 | 5.1 |
| 2013 | 72,465,608 | 14,068,960,000 | (1.8) | 1.2 |
| 2014 | 76,449,091 | 14,801,624,000 | 5.5 | 5.2 |
| 2015 | 79,104,093 | 15,463,981,000 | 3.5 | 4.5 |
| 2016 | 80,758,305 | 16,017,781,445 | 2.1 | 3.6 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. Last Revised: March 28, 2017 (the most recent information available as of June 2017).

**Per Capita Personal Income
New Mexico and the United States
2007-2016**

| Year | Per Capita Income | | N.M. as a % of U.S. | Annual Percentage Change | |
|------|-------------------|---------------|------------------------|--------------------------|-------|
| | New Mexico | United States | | N.M. | U.S. |
| 2007 | \$31,703 | \$39,821 | 79.6% | -- | -- |
| 2008 | 33,447 | 41,082 | 81.4 | 5.5% | 3.2% |
| 2009 | 32,523 | 39,376 | 82.6 | (2.8) | (4.2) |
| 2010 | 33,109 | 40,277 | 82.2 | 1.8 | 2.3 |
| 2011 | 34,737 | 42,461 | 81.8 | 4.9 | 5.4 |
| 2012 | 35,427 | 44,282 | 80.0 | 2.0 | 4.3 |
| 2013 | 34,752 | 44,493 | 78.1 | (1.9) | 0.5 |
| 2014 | 36,701 | 46,464 | 79.0 | 5.6 | 4.4 |
| 2015 | 38,025 | 48,190 | 78.9 | 3.6 | 3.7 |
| 2016 | 38,807 | 49,571 | 78.3 | 2.1 | 2.9 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. March 28, 2017 (the most recent information available as of June 2017).

**2006-2016
Wages and Salaries by Industry Sector**

| NAICS Earnings by Place of Work ⁽¹⁾ Applicable to 2006-2016 | New Mexico (Dollars in Thousands) ⁽²⁾ | | United States (Dollars in Millions) ⁽²⁾ | | Cumulative Annual Percent Change 2006 - 2016 | | Distribution of 2016 Wages & Salaries | |
|--|---|--------------|---|-------------|--|-------|--|------|
| | 2016 | 2006 | 2016 | 2006 | N.M. | U.S. | N.M. | U.S. |
| | Farm Wage and Salary | \$ 261,658 | \$ 206,195 | \$ 26,933 | \$ 18,764 | 26.9% | 43.5% | 0.7% |
| Non-farm Wage and Salary | 37,729,371 | 30,578,029 | 8,157,244 | 6032912 | 23.4 | 35.2 | 99.3 | 21.5 |
| Private Wage and Salary | 27,716,318 | 22,088,036 | 6,864,030 | 5012443 | 25.5 | 36.9 | 73.0 | 18.1 |
| Forestry, Fishing, and other related activities | 93,309 | 58,552 | 19,260 | 12,145 | 59.4 | 25.6 | 0.3 | .01 |
| Mining | 1,480,564 | 1,146,805 | 63,920 | 47,897 | 29.1 | 33.5 | 3.9 | 0.2 |
| Utilities | 381,749 | 252,375 | 59,813 | 43,599 | 51.3 | 37.2 | 1.0 | 0.2 |
| Construction | 2,017,340 | 2,165,630 | 411,410 | 354,613 | -6.8 | 16.0 | 5.3 | 1.1 |
| Manufacturing | 1,596,154 | 1,687,295 | 829,368 | 737,769 | -5.4 | 12.4 | 4.2 | 2.2 |
| Wholesale Trade | 1,164,496 | 1,064,016 | 449,085 | 349,163 | 9.4 | 28.6 | 3.1 | 1.2 |
| Retail Trade | 2,761,113 | 2,353,528 | 500,757 | 407,227 | 17.3 | 23.0 | 7.3 | 1.3 |
| Transportation and Warehousing | 987,896 | 846,528 | 269,016 | 193,964 | 16.7 | 38.7 | 2.6 | 0.7 |
| Information | 686,392 | 619,281 | 286,331 | 204,090 | 10.8 | 40.3 | 1.8 | 0.8 |
| Finance and Insurance | 1,491,091 | 1,090,392 | 636,077 | 490,398 | 36.7 | 29.7 | 3.9 | 1.7 |
| Real Estate and Rental and Leasing | 396,257 | 353,116 | 122,945 | 94,649 | 12.2 | 29.9 | 1.0 | 0.3 |
| Professional, Scientific, and Technical Services | 4,353,981 | 3,132,842 | 829,423 | 518,979 | 39.0 | 59.8 | 11.5 | 212 |
| Management of Companies and Enterprises | 367,817 | 307,884 | 270,538 | 164,687 | 19.5 | 64.3 | 1.0 | 0.7 |
| Administrative and Waste Services | 1,483,253 | 1,325,938 | 355,394 | 248,449 | 11.9 | 43.0 | 3.9 | 0.9 |
| Educational Services | 361,445 | 271,499 | 149,402 | 94,076 | 33.1 | 58.8 | 1.0 | 0.4 |
| Health Care and Social Assistance | 5,033,490 | 3,161,892 | 952,663 | 599,008 | 59.2 | 59.0 | 13.3 | 2.5 |
| Arts, Entertainment, and Recreation | 232,828 | 163,839 | 91,914 | 62,858 | 42.1 | 46.2 | 0.6 | 0.2 |
| Accommodations and Food Services | 1,721,007 | 1,189,469 | 309,535 | 200,893 | 44.7 | 54.1 | 4.5 | 0.8 |
| Other Services, Except Public Administration | 1,106,136 | 897,155 | 257,180 | 187,979 | 23.3 | 36.8 | 2.9 | 0.7 |
| Government and Government Enterprises | 10,013,053 | 8,489,993 | 1,293,214 | 1,020,469 | 17.9 | 26.7 | 26.4 | 3.4 |
| Total | \$37,991,029 | \$30,784,224 | \$8,184,177 | \$6,051,676 | | | | |

⁽¹⁾ The estimates of wage and salary disbursements for 2006 are based on the 2002 North American Industry Classification System (NAICS). The estimates for 2007 forward are based on the 2007 NAICS.

⁽²⁾ All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Last Revised: March 28, 2017 (the most recent information available as of June 2017).

APPENDIX B

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER FINANCIAL
STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2016

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**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
OFFICIAL ROSTER
JUNE 30, 2016**

Office of the State Treasurer

Tim Eichenberg, State Treasurer

Sam Collins, Deputy State Treasurer

State Treasurer's Investment Committee

Tim Eichenberg, Chairman

Charmaine Cook, Chief Investment Officer, Investment Division Director

Paul Cassidy, Member

Mark Pike, Member

Leila Burrows Kleats, State Board of Finance Member

INDEPENDENT AUDITORS' REPORT

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparison for the general fund, and each fiduciary fund, of the State of New Mexico Office of the State Treasurer (the Office) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, each fiduciary fund, and the aggregate remaining fund information of the Office as of June 30, 2016, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the State of New Mexico Office of the State Treasurer are intended to present the financial position, the changes in financial position, of only that portion of the governmental activities, and each major fund of the Office that is attributable to the transactions of the Office. They do not purport to, and do not present fairly the financial position of State of New Mexico as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. Schedules 1 – 13 in the Supplementary Information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer

Schedules 1 – 13 in the Supplementary Information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 – 11 in the Supplementary Information section are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The vendor schedule, required by 2.2.2.10(A)(2)(g) NMAC, and schedule of arbitrage on tax exempt bonds have not been subjected to the auditing procedures applied in the audit of the basic and combining and individual fund financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of the Office’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 1, 2016

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The State of New Mexico Office of the State Treasurer's (State Treasurer) Management's Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues, provide an overview of the State Treasurer's financial activity, identify changes in the State Treasurer's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The MD&A is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the State Treasurer's financial statements and notes which follow this section.

Financial Highlights

- The State Treasurer's net position increased by \$103,799,244.
- The General Fund's main financing source was appropriations, which amounted to \$3,756,800 or 96.8% of all revenue.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State Treasurer's basic financial statements. The State Treasurer's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide a broad overview of the State Treasurer's finances, in a manner similar to a private sector business. The statement of net position presents information on all of the State Treasurer's assets and liabilities, which is the difference between the two being reported as net position.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal year periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. The State Treasurer, like other State and local government entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State Treasurer can be divided into two categories: governmental funds and fiduciary funds.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State Treasurer maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, General Obligation Bond Fund and the Severance Tax Bond Fund. The General Obligation and Severance Tax Bond funds combine into a single, aggregated presentation of the activity of each individual bond issue.

Individual bond transaction data of these governmental funds is provided in the form of combining statements elsewhere in this report.

The State Treasurer adopts an annual operating budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the State Treasurer. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the State Treasurer's own programs.

Fiduciary funds provide the same type of information as the government-wide financial statements, only in more detail. The fiduciary fund financial statements provide separate information for the Short-term Investment Pool, Consolidated Investment Pool (comprised of the Bond Proceeds Investment Pools #1 (Tax Exempt) and #2 (Taxable)), and the State Funds Investment Pool. The State Treasurer's fiduciary funds account for cash, securities, and other investments identified and held on behalf of local and State government agencies. The Short-term Investment Pool accounts for the Local Government Investment Pool (LGIP), the Consolidated Investment Pool accounts for funds held in custody for both State and local government agencies, and the State Funds Investment Pool accounts for funds identified and held on behalf of State agencies. Collectively, these funds are shown on the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position as the Investment Trust Fund. The Gaming Suspense Fund was established to collect monies owed to the State from gaming establishments. It is reported as an agency fund.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Notes to the Financial Statements. The notes to the financial statements provide additional information that is essential to a user's full understanding of the data provided in the government-wide and fund financial statements, and begin on page 22 of this report.

Other Information. The combining statements referred to earlier in connection with the General Obligation and Severance Tax Bond funds are presented immediately following the notes to the financial statements. Combining statements, schedules of capital assets, and schedules of long-term debt can be found beginning on page 69 of this report. Fiduciary schedules begin on page 84.

Government-wide Financial Analysis

Net Position: Table A-1 summarizes the State Treasurer's net position as of June 30, 2016. Total State Treasurer net position for fiscal year 2016 is \$263,398,712, the majority of which is restricted as to purpose.

**Table A-1
The State Treasurer's Net Position**

| | Years Ended June 30, | |
|--|-----------------------|-----------------------|
| | 2016 | 2015 |
| ASSETS | | |
| Cash, Cash Equivalents and Repurchase Agreements | \$ 190,813,875 | \$ 184,019,252 |
| Due from Other Agencies | 73,222,862 | 112,239,369 |
| Bond Interest Receivable | - | 660,636 |
| Other Assets | 3,450 | 3,451 |
| Capital Assets, Net | 28,101 | 17,539 |
| Total Assets | <u>\$ 264,068,288</u> | <u>\$ 296,940,247</u> |
| CURRENT LIABILITIES | | |
| Accounts Payable and Others | \$ 483,500 | \$ 137,242,988 |
| Compensated Absences, Amounts Due in One Year | \$ 186,076 | 97,791 |
| Total Liabilities | 669,576 | 137,340,779 |
| NET POSITION | | |
| Investment in Capital Assets | 28,101 | 17,539 |
| Restricted | 263,556,687 | 159,670,836 |
| Unrestricted | (186,076) | (88,907) |
| Total Net Position | <u>263,398,712</u> | <u>159,599,468</u> |
| Total Liabilities and Net Position | <u>\$ 264,068,288</u> | <u>\$ 296,940,247</u> |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the State Treasurer, assets exceeded liabilities by \$263,398,712 at the close of the most recent fiscal year.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

By far, the largest portion of the State Treasurer's net position reflects amounts to be provided to satisfy its General Obligation and Severance Tax Bond obligations. It is the responsibility of the State Treasurer to record and administer debt on behalf of the agencies and departments of the State of New Mexico. The proceeds of bond issues authorized by the State Board of Finance are transferred to various State agencies in the form of grants.

The State Treasurer anticipates the future tax revenues generated will be adequate to service the debt obligations.

The restricted portion of the State Treasurer's net position, \$263,556,687, represents resources that are subject to external restrictions on their use.

Changes in Net Position: Governmental activities increased the State Treasurer's net position by \$103,799,244. Key elements of this decrease are shown in Table A-2.

**Table A-2
Changes in the State Treasurer's Net Position**

| | Years Ended June 30, | |
|--|----------------------|--------------------|
| | 2016 | 2015 |
| GOVERNMENTAL ACTIVITIES | | |
| Revenues: | | |
| Program Revenues: | | |
| General Government | \$ - | \$ - |
| Total Program Revenues | - | - |
| General Revenues: | | |
| State General Fund Appropriations, net | 3,617,932 | 3,726,719 |
| State Property Tax Levy | 74,139,519 | 78,006,684 |
| Severance and Other Taxes | 254,966,459 | 426,330,559 |
| Interest Revenue | 10,467,331 | 6,551,241 |
| Other State/Federal Revenue | 122,312 | - |
| Total General Revenues | <u>343,313,553</u> | <u>514,615,203</u> |
| Total Revenues | 343,313,553 | 514,615,203 |

(Continued on next page)

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

**Table A-2
Changes in the State Treasurer's Net Position (Continued)**

| | Years Ended June 30, | |
|--|-----------------------|-----------------------|
| | 2016 | 2015 |
| Expenses and Other Financing Sources (Uses): | | |
| General Government | \$ (4,672,766) | \$ (4,482,917) |
| Debt Service Activity | (233,122,337) | (573,231,052) |
| Other Sources: | | |
| Bond Proceeds | - | 403,649 |
| Transfers in from Other State Agencies | (1,719,206) | 1,347,785 |
| Net (Expenses) Revenue | <u>(239,514,309)</u> | <u>(575,962,535)</u> |
| Increase (Decrease) in Net Position | 103,799,244 | (61,347,332) |
| Net Position - Beginning of Year | <u>159,599,468</u> | <u>220,946,800</u> |
| Net Position - End of Year | <u>\$ 263,398,712</u> | <u>\$ 159,599,468</u> |

Financial Analysis of the Government's Funds

As noted earlier, the State Treasurer uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the State Treasurer's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State Treasurer's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the State Treasurer's governmental funds reported combined ending fund balances of \$263,556,687, which is an increase of \$103,876,967 in comparison with the prior year. The primary reason for the decrease in fund balance is debt service payments exceeding property and severance taxes and transfers in from other state agencies.

The fund balance of the State Treasurer's debt service funds decreased in comparison to the prior year due to large debt service payments offset by property and severance taxes and transfers in from other agencies as disclosed in Schedule 3 - Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - General Obligation Bond Debt Service Funds, and Schedule 5 - Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Severance Tax Bond Debt Service Funds.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

General Fund Budgetary Highlights

There were no significant variations between the original budget and the final amended budget.

There were no significant variances between final budget amounts and actual budget results for the General Fund. The General Fund actual expenditures were less than the final budgeted amounts by 3.5%.

Capital Assets and Debt Administration

Capital Assets. The State Treasurer's investment in capital assets for its governmental activities as of June 30, 2016 amounts to \$28,101, net of accumulated depreciation. This investment in capital assets includes equipment. Additional information on the State Treasurer's capital assets can be found in Note 8 of this report.

Long-Term Debt. For the year ended June 30, 2016, the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of \$1,519,011,937, all of which is secured by pledged tax revenues. More detailed information about the State Treasurer's long-term debt is presented in Schedule 6. Long-term debt service requirements increased by \$305,876,298 from the prior year as new issuances in fiscal year 2016 exceeded principal payments.

| | Years Ended June 30, | |
|--------------------------|-------------------------|-------------------------|
| | 2016 | 2015 |
| General obligation bonds | \$ 379,529,245 | \$ 457,647,826 |
| Severance tax bonds | 1,139,482,692 | 755,487,813 |
| Total principal balances | <u>\$ 1,519,011,937</u> | <u>\$ 1,213,135,639</u> |

Significant Highlights

During fiscal year 2016, the State Treasurer's Office continued to hold operating costs down to stay within state budget constraints. The executive management team continued to closely review weekly budget status reports in order to identify potential cost savings. By the end of fiscal year 2016, cost savings yielded a \$138,868 reversion to the General Fund. Over the past five years, the State Treasurer's budget has been reduced by approximately \$163,085 through vacancies and other cost-saving measures.

Following the agency's stated objective of selecting investments based primarily on safety, then liquidity, and finally, yield, the agency ended fiscal year 2016 with unrealized gains of \$17,350,948 as compared to unrealized gains of \$9,710,368 in fiscal year 2015. Earnings increased to \$38,107,400 in 2016 from \$26,658,045 in 2015, an increase of 42.9%. The values of the agency's portfolios which are primarily bond portfolios benefited from historically low interest rates as the value of bonds rise as market interest rates fall. The low yields, however, caused the decline in interest earned. Assets of fiduciary funds managed by the State Treasurer totaled \$3,848,264,338 at June 30, 2016, a decrease of 12.7% from June 30, 2015 when balances totaled \$4,408,577,512. This decrease is due primarily to a decline in the balance of the General Fund Investment Pool which has been negatively impacted by declining tax revenues related to oil and gas pricing and production.

The State Treasurer's office began working with the Department of Finance and Administration (DFA) and the Department of Information Technology (DoIT) on the remediation of the business processes

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

and issues with the Statewide Human Resources, Accounting, and Management Reporting (SHARE) system that prevented DFA from performing a meaningful reconciliation between its general ledger and funds held by STO. On June 20, 2012, the "Current State Diagnostic of Cash Control" report was issued by consultants that were hired to assess the current state of cash reconciliation and make recommendations for remediation. The Diagnostic identified a number of issues that were preventing the completion of a timely and accurate statewide cash reconciliation and recommended an approach to remediate the current cash control issues. Deloitte was consultant prepared the diagnostic and performed project management.

Most issues are a result of inadequate implementation of the SHARE system in 2006. The SHARE system which is Oracle/PeopleSoft based did not have the full treasury management system implemented at conversion. This resulted in many processes being disjointed and the system that tracks the investment portfolios that the State Treasurer's office manages not integrated into SHARE.

DFA considers the remediation project to be a success and is reconciling on a monthly basis. Additional remediation recommendations require that the SHARE system receive software upgrades. The legislature appropriated \$1,950,000 in 2013 to fund the implementation of the integrated treasury module which will include the deal management module, which is an integrated investment and accounting system, is anticipated to occur after the SHARE software is upgraded in the fall of calendar year 2017. A request to extend the appropriation through 2018 was submitted in October 2014. This extension was approved by the legislature in January 2015. STO engage a consultant to assist with the design phase of the project which began after the close of the fiscal year in August 2016. Once this integration is complete, it will replace QED, the State Treasurer's Office legacy investment accounting software. Once this integration is completed, the State Treasurer's Office will not have to enter financial information into two different systems, which will simplify reconciliations.

Staff development programs provided ongoing education and training for the State Treasurer's Office employees, providing training on supervisory skills, working in a union environment, defensive driving, civil rights, ethics sexual harassment prevention and EEOC. Other training was resourced on the benefits of the deferred compensation program, the state public employees retirement program and retiree health care coverage. The State Treasurer's Office continues to honor retiring employees and recognize employee years of service once they have been employed for five years or longer.

In fiscal year 2016, the State Treasurer's Office hosted ratings analysts from Standard & Poor's rating agency to review the status and management of the Local Government Investment Pool (LGIP), which is a pooled investment managed on behalf of local governments, school districts, higher education institutions, special districts, quasi-governmental agencies and Indian tribes and pueblos. Standard & Poor's representatives confirmed that the AAAM rating was reaffirmed based on a strong analysis of credit quality, market price exposure and management.

The Investment Division of the State Treasurer's Office hosted the 7th Annual LGIP Stakeholder Meeting in September 2015, inviting all participants to attend. The program was held in Albuquerque and included speakers such as James E. Glassman, Head Economist with JPMorgan Chase Bank and Barry Weiss, Director from Standard & Poor's. Participants heard presentations on management of the LGIP, market conditions, the economic outlook and other specific topics and issues. Participants found the meeting beneficial and it was hosted with minimal cost to the Treasurer's Office.

In fiscal year 2015, the State Treasurer's Office implemented a new process for the selection of broker-dealers for the annual list of trading partners. The object of the revised process was to maximize usefulness to STO's investment strategy while keeping the list to a reasonable number per

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

industry practice. The new process was well received and the Broker-Dealer list for FY16, effective 10/1/2015, was approved by the State Board of Finance.

The Investment Division outreach on behalf of the Local Government Investment Pool was continued in fiscal year 2016 through the New Mexico Association of Counties, and the New Mexico Municipal League.

The Investment Division reviewed additional repurchase agreements (REPO) and Triparty counterparties. On the topic of collateral, a state collateral pool program is being researched and discussed with the state's banking community. The Agency worked with the NM Board of Finance to conduct a new Fiscal Agent and Investment Custodian procurement. Additionally, the reintroduction of corporate credit into the investment portfolios was approved by Treasurer Eichenberg. Procedures and practices for corporate credit investments were in process as of year-end.

The Cash Management Division successfully implemented a cash confirmation process to comply with the State Auditor's rule 2.2.2.10. This included verifying transaction activity to corroborate the integrity of statewide cash balances totaling \$3.1 billion.

The State Treasurer places a high priority on active participation on all of the boards and commissions on which he serves. In fiscal year 2016, a significant amount of time was dedicated to service on boards and commissions.

Economic Factors and Next Year's Budgets and Rates

- Challenging economic conditions require state government to reduce expenditure levels and the State Treasurer's Office will continue to look for cost savings within these budget constraints.
- The State Treasurer's Office continues to reduce budget through vacancy savings and through attrition. Staffing levels were reduced and existing staff job duties were enhanced.
- The overall costs of facilities, equipment and transportation were reduced within current budget constraints.

These factors were considered in preparing the State Treasurer's budget for fiscal year 2016.

Contacting the State Treasurer's Financial Management

This financial report is designed to provide a general overview of the State Treasurer's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Tim Eichenberg, State Treasurer
Office of the State Treasurer
PO Box 5135
Santa Fe, New Mexico 87505

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF NET POSITION
JUNE 30, 2016**

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Investment in State General Fund Investment Pool | \$ 360,850 |
| Repurchase Agreements (Held in State General Fund Investment Pool) | 190,453,025 |
| Due from Other Agencies | 73,222,862 |
| Other Assets | 3,450 |
| Capital Assets, Net of Accumulated Depreciation: | |
| Equipment | 28,101 |
| Total Assets | <u>\$ 264,068,288</u> |
| LIABILITIES | |
| Accounts Payable | \$ 240,360 |
| Accrued Payroll | 81,262 |
| Accrued Payroll Taxes | 20,021 |
| Unearned Revenue | 2,326 |
| Due to State General Fund | 139,531 |
| Compensated Absences | 186,076 |
| Total Liabilities | <u>669,576</u> |
| NET POSITION | |
| Investment in Capital Assets | |
| Restricted for: | 28,101 |
| Debt Service | 263,556,687 |
| Unrestricted | (186,076) |
| Total Net Position | <u>263,398,712</u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 264,068,288</u></u> |

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

| Functions/Programs | Expenses | Operating Grants and Contributions | Net (Expenses) Revenue and Changes in Net Position Primary Government |
|---|----------------------|--|--|
| PRIMARY GOVERNMENT | | | |
| GOVERNMENTAL ACTIVITIES | | | |
| General Government | \$ 4,672,766 | \$ - | \$ (4,672,766) |
| Interest on Debt Service Activity | 34,703,441 | - | (34,703,441) |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 39,376,207 | \$ - | (39,376,207) |
| GENERAL REVENUES: | | | |
| State Property Tax Levy | | | 74,139,519 |
| Severance Taxes | | | 254,966,459 |
| BOND ACTIVITY: | | | |
| Bond Proceeds | | | - |
| Bond Principal Payments | | | (198,418,896) |
| TRANSFER FROM (TO) STATE AGENCY: | | | |
| State General Fund Appropriations | | | 3,756,800 |
| Reversions to State General Fund FY15 | | | (138,868) |
| Other State Agencies | | | (1,719,206) |
| Interest | | | 10,467,331 |
| Other State Funds | | | 122,312 |
| Total General Revenues and Transfers | | | 143,175,451 |
| CHANGE IN NET POSITION | | | 103,799,244 |
| Net Position - Beginning | | | 159,599,468 |
| NET POSITION - ENDING | | | \$ 263,398,712 |

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

| | Major Funds | | | Total Governmental Funds |
|---|-------------------|------------------------------------|----------------------------|--------------------------------|
| | General Fund | General Obligation Bond Fund | Severance Tax Bond Fund | |
| ASSETS | | | | |
| Investment in State General Fund | | | | |
| Investment Pool | \$ 360,850 | \$ - | \$ - | \$ 360,850 |
| Repurchase Agreements (Held in State General Fund Investment Pool) | - | 29,450,262 | 161,002,763 | 190,453,025 |
| Other Assets | 3,450 | - | - | 3,450 |
| Bond Interest Receivable | - | - | - | - |
| Due from Other Agencies | - | 16,444,621 | 56,778,241 | 73,222,862 |
| | <u>364,300</u> | <u>45,894,883</u> | <u>217,781,004</u> | <u>264,040,187</u> |
| Total Assets | <u>\$ 364,300</u> | <u>\$ 45,894,883</u> | <u>\$ 217,781,004</u> | <u>\$ 264,040,187</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts Payable | \$ 121,160 | \$ - | \$ 119,200 | \$ 240,360 |
| Unearned Revenue | 2,326 | - | - | 2,326 |
| Due to State General Fund | 139,531 | - | - | 139,531 |
| Accrued Payroll | 81,262 | - | - | 81,262 |
| Accrued Payroll Taxes | 20,021 | - | - | 20,021 |
| Total Liabilities | <u>364,300</u> | <u>-</u> | <u>119,200</u> | <u>483,500</u> |
| FUND BALANCES: | | | | |
| Restricted for: | | | | |
| Debt Service | - | 45,894,883 | 217,661,804 | 263,556,687 |
| Unassigned | - | - | - | - |
| Total Fund Balances | <u>-</u> | <u>45,894,883</u> | <u>217,661,804</u> | <u>263,556,687</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 364,300</u> | <u>\$ 45,894,883</u> | <u>\$ 217,781,004</u> | <u>\$ 264,040,187</u> |

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

| | |
|---|----------------|
| Total Fund Balance - Governmental Funds (Balance Sheet - Governmental Funds) | \$ 263,556,687 |
|---|----------------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position

| | |
|--|-----------|
| Capital assets total acquisition value | 187,770 |
| Total accumulated depreciation | (159,669) |
| Total Capital Assets, Net | 28,101 |

Some liabilities (compensated absences) are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position

| | |
|--|-----------|
| | (186,076) |
|--|-----------|

| | |
|--|-------------------------------------|
| Net Position of Governmental Activities (Statement of Net Position) | <u><u>\$ 263,398,712</u></u> |
|--|-------------------------------------|

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

| | Major Funds | | | Total Governmental Funds |
|--|--------------|------------------------------------|----------------------------|--------------------------------|
| | General Fund | General Obligation Bond Fund | Severance Tax Bond Fund | |
| REVENUES | | | | |
| Interest Income - Debt Service | \$ - | \$ 1,690,897 | \$ 8,776,434 | \$ 10,467,331 |
| Severance Taxes | - | - | 254,966,459 | 254,966,459 |
| State Property Tax Levy | - | 74,139,519 | - | 74,139,519 |
| Total Revenues | - | 75,830,416 | 263,742,893 | 339,573,309 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Personnel Services and Employee Benefits | 2,827,707 | - | - | 2,827,707 |
| Operating Costs: | | | | |
| Contractual Services | 392,761 | - | - | 392,761 |
| Other Administrative Expenditures | 510,126 | - | - | 510,126 |
| Debt Service: | | | | |
| Principal and Interest on Long-Term Debt | - | 78,118,581 | 19,098,064 | 97,216,645 |
| Principal and Interest on Short-Term Debt | - | - | 135,905,692 | 135,905,692 |
| Other Charges | - | 3,418 | 842,497 | 845,915 |
| Capital Outlay | 18,534 | - | - | 18,534 |
| Total Expenditures | 3,749,128 | 78,121,999 | 155,846,253 | 237,717,380 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (3,749,128) | (2,291,583) | 107,896,640 | 101,855,929 |
| OTHER FINANCING SOURCES (USES): | | | | |
| State General Fund Appropriations | 3,756,800 | - | - | 3,756,800 |
| Special Appropriation | - | - | - | - |
| Reversions to State General Fund FY16 | (138,868) | - | - | (138,868) |
| Miscellaneous other sources | 122,312 | - | - | 122,312 |
| Transfer (to) from Other State Agency | - | 1,064,125 | (2,783,331) | (1,719,206) |
| Total Other Financing Sources (Uses) | 3,740,244 | 1,064,125 | (2,783,331) | 2,021,038 |
| NET CHANGE IN FUND BALANCES | (8,884) | (1,227,458) | 105,113,309 | 103,876,967 |
| Fund Balances - Beginning of Year | 8,884 | 47,122,341 | 112,548,495 | 159,679,720 |
| FUND BALANCES - END OF YEAR | <u>\$ -</u> | <u>\$ 45,894,883</u> | <u>\$ 217,661,804</u> | <u>\$ 263,556,687</u> |

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

**Net Change in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and
Changes in Fund Balances)** \$ 103,876,967

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets as expenditures
because such outlays use current financial resources. In contrast,
the Statement of Activities reports only a portion of the outlay as
expense. The outlay is allocated over the assets' estimated useful
lives as depreciation expense for the period.

| | |
|--|----------------|
| Capital Outlay | 18,534 |
| Depreciation expense | <u>(7,972)</u> |
| Excess of capital outlay over depreciation expense | 10,562 |

Some expenses reported in the statement of activities do not require
the use of current financial resources, and these are not reported
as expenditures in governmental funds:

| | |
|----------------------------------|-----------------|
| Increase in Compensated Absences | <u>(88,285)</u> |
|----------------------------------|-----------------|

Change in Net Position of Governmental Activities \$ 103,799,244

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND -
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2016**

| | General Fund | | | |
|--|------------------|------------------|---|---|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget - Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| State General Fund Appropriation | \$ 3,785,100 | \$ 3,756,800 | \$ 3,756,800 | \$ - |
| Federal Grants | 4,000 | 4,000 | - | (4,000) |
| Other | 122,300 | 122,300 | 122,312 | 12 |
| Total Revenues | <u>3,911,400</u> | <u>3,883,100</u> | <u>3,879,112</u> | <u>(3,988)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Personnel Services and Benefits | 3,185,500 | 2,918,530 | 2,827,707 | 90,823 |
| Contractual Services | 206,400 | 426,400 | 392,761 | 33,639 |
| Operating Costs | 519,500 | 538,170 | 528,660 | 9,510 |
| Total Expenditures | <u>3,911,400</u> | <u>3,883,100</u> | <u>3,749,128</u> | <u>133,972</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>\$ -</u> | <u>\$ -</u> | 129,984 | <u>\$ 129,984</u> |
| RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE | | | | |
| Unbudgeted Reversions to State General Fund | | | <u>(138,868)</u> | |
| NET CHANGE IN FUND BALANCES (GAAP BASIS) | | | <u>\$ (8,884)</u> | |

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

| | Investment Trust Fund | Agency Fund - Gaming Suspense Fund |
|---|--------------------------|--|
| ASSETS | | |
| Cash and Investments: | | |
| Fiscal Agent Bank Account | \$ 42,002,853 | \$ - |
| Cash in Banks | 393,269,534 | - |
| Certificates of Deposit | 65,950,066 | - |
| U.S. Government Securities | 2,329,998,845 | - |
| Municipal Bonds | 57,600,339 | - |
| Repurchase Agreements | 808,000,000 | - |
| Asset Backed Bonds | 20,300,922 | - |
| Miscellaneous Cash | 6,870,000 | - |
| Discounted Notes | 116,395,652 | - |
| Total Cash and Investments | 3,840,388,211 | - |
| Securities Receivable | 3,911 | - |
| Other Receivables | - | 15,203,938 |
| Accrued Interest Receivable | 7,872,216 | - |
| | TOTAL ASSETS | \$ 15,203,938 |
| | \$ 3,848,264,338 | \$ 15,203,938 |
| LIABILITIES | | |
| Due to Broker | \$ 39,295,605 | \$ - |
| Other Liabilities | 28,307 | - |
| Due To State General Fund | - | 15,203,938 |
| Total Liabilities | 39,323,912 | \$ 15,203,938 |
| NET POSITION - HELD IN TRUST | 3,808,940,426 | |
| TOTAL LIABILITIES AND NET POSITION | \$ 3,848,264,338 | |

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2016**

| | Investment Trust Fund |
|---|--------------------------|
| ADDITIONS | |
| Investment Income | \$ 38,107,400 |
| Deposits | 53,366,388,986 |
| DEDUCTIONS | |
| Management Fees | (341,045) |
| Withdrawals | (53,987,171,507) |
| Change in Net Position | (583,016,166) |
| NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2015 | 4,391,956,592 |
| NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2016 | \$ 3,808,940,426 |

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 DEFINITION OF REPORTING ENTITY

The Office of the State Treasurer (State Treasurer) has existed continuously since 1851 (Laws 1851-1852). The Legislative Assembly of the Territory of New Mexico passed an act to establish and regulate the Treasury Department of the Territory of New Mexico. This act established the office of territorial Treasurer and designed the duties of Treasurer. The Office of the State Treasurer is established by the New Mexico Constitution, Article V, Section 1, which provides in part:

“The executive department shall consist of a governor, lieutenant governor, secretary of state, State auditor, State treasurer, attorney general, and commissioner of public lands, who shall, unless otherwise provided in the constitution of New Mexico, be elected for terms of four years beginning on the first day of January next after their election. The governor and lieutenant governor shall be elected jointly by the casting by each voter of a single vote applicable to both offices.”

Statutory powers and duties of the State Treasurer are contained in numerous articles of the New Mexico Statutes Annotated. Principal statutory provisions related to the New Mexico State Treasurer's Investment Fund are listed below:

- (1) Sections 8-6-1 through 8-6-7 NMSA 1978 (1983 Repl.), as amended. Section 8-6-3 NMSA 1978 (1983 Repl.) provides that the State Treasurer shall receive and keep all monies of the State, except when otherwise provided, shall disburse the public money upon lawful warrants and shall keep a just, true and comprehensive account of all monies received and disbursed.
- (2) Section 6-1-13 NMSA 1978 (1978 Repl.) provides that the State Treasurer shall authorize all State agency deposit accounts and shall establish conditions and reports appropriate to the accounts.
- (3) Section 6-8-2 NMSA 1978 (1988 Repl.) provides that the State Treasurer shall be a member of the State Investment Council. Section 6-8-6 NMSA 1978 (1988 Repl.) states that the State Treasurer shall maintain custody of the State permanent fund.
- (4) Sections 6-10-10 (G), (H), and (I) NMSA 1978 (1988 Supp.) empower the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in demand deposits and not immediately needed for the operation of State government in certain specified securities or investments.
- (5) Section 6-12A-2 NMSA 1978 is to ensure an orderly and uninterrupted flow of money to the general fund by anticipating the receipt of taxes and other State revenue.
- (6) Section 6-10-10.1 NMSA 1978. Short-term investment fund created; distribution of earnings; report of investment.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 DEFINITION OF REPORTING ENTITY (CONTINUED)

- a. There is created in the State treasury the "short-term investment fund." The fund shall consist of all deposits from governmental entities and Indian tribes or pueblos that are placed in the custody of the State Treasurer for short-term investment purposes pursuant to this section. The State Treasurer shall maintain a separate account for each governmental entity and Indian tribe or pueblo having deposits in the fund.
- b. If any local public body is unable to receive payment on public money at the rate of interest as set forth in Section 6-10-36 NMSA 1978 from financial institutions within the geographic boundaries of the governmental unit, then a local public finance official having money of that local public body in his custody required for expenditure within thirty days or less may, with the consent of the appropriate local board of finance, if any, remit some or all of such money to the State Treasurer, bank, savings and loan association or credit union for deposit for the purpose of short-term investment as allowed by this section.
- c. Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to this section, the local public body finance official shall notify and make sure funds are made available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the State Treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.
- d. The local public body finance official shall specify the length of time each deposit shall be in the short-term investment fund, but in any event the deposit shall not be made for more than thirty days. The State Treasurer, through the use of the State fiscal agent, shall separately track each such deposit and shall make such information available to the public upon written request.
- e. The State Treasurer shall invest the fund as provided for State funds under Section 6-10-10 NMSA 1978 and may elect to have the short-term investment fund consolidated for investment purposes with the State funds under the control of the State Treasurer, provided that accurate and detailed accounting records are maintained for the account of each participating entity and Indian tribe or pueblo and that a proportionate amount of interest earned is credited to each of the separate government accounts. The fund shall be invested to achieve its objective, which is to realize the maximum return consistent with safe and prudent management.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 DEFINITION OF REPORTING ENTITY (CONTINUED)

- f. At the end of each month, all interest earned from investment of the short-term investment fund shall be distributed by the State Treasurer to the contributing entities and Indian tribes or pueblos in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts in the fund were invested. No fees or transfer expenses shall be charged to the participating entities and Indian tribes or pueblos for investment in the short-term investment fund.

The State Treasurer is responsible for making the State of New Mexico's debt service and interest payments on general obligation and severance tax bonds and maintaining the related accounting records. The proceeds from the issuance of these general obligation and severance tax bonds and the related debt are not part of this audit.

Certain investments owned and administered by the Department of Transportation are purchased through the State Treasurer's Office. The fair value and other gratuitous information related to these investments are not included in the financial statements of the Investment Trust Fund.

The State Treasurer's Office operates several investment pools which collectively represent the cash and investments held at the State Treasurer's Office. These pools represent amounts being held and invested for State agencies and for local governments. They have been identified as: 1) State funds investment pool, 2) short-term investment pool, 3) consolidated investment pool and 4) The Reserve Contingency Fund.

Advice and Consent by the State Board of Finance

The State Board of Finance (Board) by statute is comprised of the State of New Mexico governor, lieutenant governor, State treasurer and four members from the general public, and each is a voting member of the Board.

The Board has the responsibility for the issuance of the general obligation and severance tax bonds and for the investment and distribution of the proceeds from such bonds. In that regard, the Board approves the issuance of all such bonds, and provides information for bond prospectuses in order to ensure compliance with financial disclosure requirements and to present information concerning bond issues in a meaningful and informative format. Debt Service Funds are maintained by the State Treasurer for Bonds issued by the Board. The State Treasurer does not report the corresponding debt. The debt is reported on the financial statements of the CAFR. The details of the debt are reported in the supplementary and additional information sections in this report.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Reporting Entity

The financial statements for the State Treasurer have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The State Treasurer is an office of the State of New Mexico. The financial statements and notes to the financial statements include all funds for which the State Treasurer is responsible. These financial statements only present activity related to the State Treasurer's Office. The State Treasurer receives funding from State and federal sources and must comply with the requirements of these funding source entities. However, the State Treasurer is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since the State Treasurer is elected by the public and has decision making authority, the power to designate management, and the ability to significantly influence operations and have primary financial accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement 14 (amended by GASBs 39 and 61) which are included in the State Treasurer's reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. General State Levy and Severance Tax revenues are recognized as revenues in the year for which they are billed.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

General Fund (SHARE Fund 18200)

The government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is funded through the 2009 General Appropriation Act (Laws of 2009, Chapter 3, Section F) and is subject to reversion.

Debt Service Funds:

The General Obligation Bond Fund (see Schedules 2 and 3 in the Supplementary Information section for SHARE Fund numbers) accounts for payment of principal and interest on general obligation bonds. Financing sources are provided through the collection of property tax levies by other State agencies. The fund does not receive State General Fund appropriations that are subject to reversion.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Severance Tax Bond Fund (see Schedules 4 and 5 in the Supplementary Information section for SHARE Fund numbers) accounts for tax receipts levied by other State agencies upon natural resource products, severed and saved from the lands of the State of New Mexico, and to account for payment of principal and interest on severance tax bonds. The fund does not receive State General Fund appropriations that are subject to reversion.

Additionally, the government reports the following **Fiduciary Funds**:

The LGIP Short-Term Investment Pool (SHARE Fund 68590) accounts for cash, securities and other investments identified and held in custody only for the Local Government Investment Pool (LGIP).

The Consolidated Investment Pool (SHARE Fund 10190) accounts for cash and short-term securities, such as overnight repurchase contracts, held in custody for State agencies.

The State Funds Investment Pool (SHARE Fund 10090) accounts for securities and other investments identified and held in custody only for State agencies.

The Gaming Suspense Fund (SHARE Fund 02000) was established to collect monies owed to the State from gaming establishments. The fund does not receive State General Fund appropriations that are subject to reversion. This is an agency fund.

Amounts reported as **Program Revenues** include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as **General Revenues** rather than as program revenues. Likewise, general revenues include all taxes.

Deposits and Investments

The State Treasurer's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the State Treasurer to invest in, subject to various restrictions, U.S. government obligations; U.S. government agency obligations; commercial paper; corporate bonds; asset backed obligations; repurchase agreements; bank, savings and loan association or credit union deposits; variable rate notes; tax-exempt securities; securities issued by the State or a political subdivision of the State, or an agency, institution or instrumentality of the State, and money market mutual funds.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are not recorded as revenue until received.

Capital Assets

Capital assets, which include equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment, including software, is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5) and *AICPA Statement of Position 98-1*.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Equipment of the State Treasurer is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------|--------------|
| Office Equipment | 5 |
| Computer Equipment | 5 |

Compensated Absences

Employees are entitled to accumulate annual leave at the rate based on appointment date and length of continuous service. A maximum of 240 hours of such accumulated annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

Employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period. There is no limit to the amount of sick leave which an employee may accumulate. State agencies are allowed to pay fifty percent (50%) of each employee’s hourly rate for accumulated sick leave over 600 hours up to 120 hours. Payment may be made only once per fiscal year at an employee-specified pay period in either January or July.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are not reported as liabilities in the applicable governmental activities. The State Treasurer is not the issuer of the debt, nor is it ultimately responsible for the debt. The details of the long-term debt are reported in the Supplementary Information section of the financial statements as Schedule 6. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method, and are reported as Supplementary Information in Schedule 6 of the financial statements. Bonds payable are reported net of the applicable bond premium or discount in Schedule 6.

Fund Balance

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or committed, assigned or unassigned. Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or, in some cases, by legislation. See Note 22 for additional information about fund balances.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's policy to spend committed resources first.

Net Position

The government-wide statements utilize a net position presentation categorized as follows:

The government-wide financial statements utilize a net asset presentation. Net position is categorized as investments in capital assets (net of related debt), restricted and unrestricted.

Net investments in capital assets is intended to reflect the portion of net position which is associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is debt less the outstanding liquid assets and any associated unamortized cost.

Restricted assets are liquid assets (generated from revenues and not bond proceeds) which have third-party (statutory or granting agency) limitations that are legally enforceable on their use. When there is an option, the State Treasurer spends restricted resources first. Net position is restricted by the bond indenture for debt service. Restricted net position totals \$263,556,687.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

Unrestricted assets are all other assets that do not meet the definition of “restricted assets” or “investments in capital assets”.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office did not have any items that qualified for reporting in this category as of June 30, 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Department did not have any items that were required to be reported in this category as of June 30, 2016.

Pensions

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

In January 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability.

Compliant with the requirements of Government Accounting Standards Board Statement No.68 and No.71, the State of New Mexico has implemented the standards for the fiscal year ending June 30, 2015.

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, the total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions (Continued)

State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

NOTE 3 STATE GENERAL FUND INVESTMENT POOL

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

The State Controller indicated on August 8, 2016 that calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months; resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP and that all claims will be honored at face value.

The State Treasurer has established daily and monthly procedures that mitigate the risk of misstatement of the Board's balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

State law (Section 8-6-3 NMSA 1978) requires the State Treasurer's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the State

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

Treasurer consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

NOTE 4 INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

At June 30, 2016, the State Treasurer General Fund had \$360,850 invested in the State General Fund Investment Pool.

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk - The New Mexico State Treasurer pools are not rated.

NOTE 5 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Per the General Appropriation Act, Laws of 2009, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2009 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget. Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control is at the appropriation unit level.

The debt service funds of the State Treasurer are not budgeted.

The State Treasurer follows these procedures in establishing the budgetary data reflected in the financial statements:

1. By September 1, the State Treasurer prepares a budget appropriation request by category to be presented to the next legislature.
2. The appropriation request is submitted to the DFA's Budget Division and to the Legislative Finance Committee (LFC).
3. The DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Budgets and Budgetary Accounting (Continued)

4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level of the State Treasurer as a whole and changes are approved by the DFA.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund only. The debt service funds (General Obligation Bond Funds and Severance Tax Bonding Funds) are non-budgeted funds.
8. The General Appropriations Act of 2004 established the modified accrual basis of accounting as the budgetary basis of accounting for the State of New Mexico beginning July 1, 2004. Accordingly, future budgets will be prepared using the modified accrual basis of accounting.
9. The State Treasurer's budget for the fiscal year ended June 30, 2016 was amended in a legally permissible manner by reallocating line item category totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.

NOTE 6 DEPOSITS AND INVESTMENTS

Fiscal Agent Bank

The State Board of Finance entered into an agreement with Wells Fargo Bank in Albuquerque to provide banking services as Fiscal Agent for the State of New Mexico through May 1, 2016 with an option to renew to 2018.

Custody Bank

The State Board of Finance and JP Morgan Chase entered into an agreement whereby JP Morgan Chase would provide banking services as Custody Bank for the State of New Mexico effective July 1, 2014 for a two-year period, with the option to renew for up to six additional years at the discretion of the State Board of Finance.

Investment Trust Fund

Cash on deposit represents the demand deposit account with the fiscal agent bank. Current year transactions reflect all banking activity for the fiscal year as well as the activity of investments purchased and disposed of during the fiscal year.

The State Treasurer invests all public monies held in excess of the minimum compensating balance maintained with the fiscal agent bank in accordance with an investment policy approved by the State Board of Finance.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Trust Fund (Continued)

The State Treasurer has implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments*. This statement requires certain investments as defined in GASB Statement No. 31 to be valued at fair value. Fair value is based on quoted market prices as of the valuation date. The change in fair value is recognized as a component of investment income in the current year.

The State Treasurer invests excess cash balances on behalf of certain earmarked funds of State agencies identified by State statute and local governments. Interest earnings are distributed based on average outstanding cash balances for local governments and the State agencies where interest is allowed to be earned. All other interest earnings are transferred to the State General Fund.

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from fifty percent (50%) to one hundred two percent (102%) of the par value of the investment dependent upon the institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50 percent (50%) of the average investment balance.

At June 30, 2016, collateral pledged to public money deposits was as follows:

| | Fiscal Agent Account | Certificates of Deposit |
|--|-------------------------|----------------------------|
| Cash in Bank (Bank Balance) | \$ 39,068,549 * | \$ 65,950,066 |
| Less FDIC Insurance Coverage | - | 1,809,687 |
| Total Unsecured Public Funds | \$ 39,068,549 | \$ 64,140,379 |
| Collateral Requirement (50%, 75% or 102%) of Uninsured Public Funds | \$ 19,534,275 | \$ 48,485,126 |
| Collateral Pledged: | | |
| US Government Securities | 64,317,921 | 48,964,751 |
| Excess (Under) Collateralized | \$ 44,783,647 | \$ 479,625 |

* Fiscal agent bank is required to collateralize the monthly average balance.

See Schedule 10 for reconciliation.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Brokered Transactions

The State Treasurer initiated electronic purchase trades with the following brokers during the year ended June 30, 2016:

| Broker Name | Number of Transactions |
|--------------------------------------|---------------------------|
| BAIRD (ROBERT W.) & CO. INCORPORATED | 15 |
| BANK OD NYC (PERSHING) | 37 |
| BANK OF NEW YORK | 6 |
| BANK OF NEW YORK (BARCLAYS) | 2 |
| BANK OF NEW YORK (BBTSEC) | 21 |
| BANK OF NEW YORK (CANTOR) | 1 |
| BANK OF NEW YORK (DAIWA) | 10 |
| BANK OF NEW YORK (DBGOV) | 18 |
| BANK OF NEW YORK (FUSI) | 49 |
| BANK OF NEW YORK (HGSI) | 13 |
| BANK OF NEW YORK (HILLTOP) | 1 |
| BANK OF NEW YORK (MIZUHOSEC) | 96 |
| BANK OF NEW YORK (PARIBAS) | 1 |
| BANK OF NEW YORK (TDS) | 26 |
| BANK OF NEW YORK (WEDBUSH) | 1 |
| BANK OF NY (CANTORPRIME) | 24 |
| BANK OF NY/MIZUHO SECS USA TREAS FIN | 1 |
| BANK OF NY/TORONTO DOMINION SEC INC | 1 |
| BANK OF NYC (JEFFERIES) | 15 |
| BARCLAYS CAP INC/BARCLAYS CAP INC FI | 2 |
| BARCLAYS CAPITAL INC./LE | 23 |
| CANTOR FITZGERALD & CO /CASTLEOAK | 1 |
| CANTOR FITZGERALD & CO INC | 4 |
| CANTOR FITZGERALD & CO./CCS | 3 |
| CANTOR FITZGERALD/STOCK LOAN | 5 |
| CORPORATE REORGANIZATIONS | 29 |
| DEUTSCHE BANK SECURITIES INC. | 5447 |
| FIRST SOUTHWEST CO (FSWC) | 8 |
| FIRST TENNESSEE BK MEMPHIS (1010) | 5 |
| GEORGE K BAUM (GKBAUM) | 3 |
| GUGGENHEIM SECURITIES, LLC | 4 |
| HILLTOP SECURITIES INC. (HILLTOP) | 20 |
| JPM CHASE/FCSTONE | 52 |
| JPMORGAN CHASE (JPMCC) | 6 |
| JPMORGAN CHASE BANK/HSBCSI | 44 |
| JPMORGAN CHASE BK | 4 |
| JPMORGAN CHASE BK (CLARKE) | 2 |
| JPMORGAN CHASE BK (CUST) | 19 |
| JPMORGAN CHASE BK (GREENWICH) | 6256 |
| JPMORGAN CHASE BK (HSBCSI) | 404 |
| JPMORGAN CHASE BK/RBS SECURITIES INC | 8 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Brokered Transactions (Continued)

| <u>Broker Name</u> | <u>Number of Transactions</u> |
|---------------------------------------|-----------------------------------|
| KEYBANC CAPITAL MARKETS INC. | 2 |
| LOOP CAPITAL MARKETS LLC (PERSHING) | 1 |
| MITSUBISHI UFJ SECURITIES (USA), INC. | 325 |
| MIZUHO SECURITIES USA INC | 1440 |
| MORGAN STANLEY & CO. INCORPORATED | 7 |
| PERSHING LLC | 27 |
| PIPER JAFFRAY & CO. | 3 |
| RBC CAPITAL MARKETS LLC | 90 |
| REDEMPTIONS | 238 |
| SCOTT & STRINGFELLOW INC | 6 |
| SG AMERICAS SECURITIES, LLC (SGAS) | 3 |
| STIFEL NICOLAUS & CO INC | 1 |
| SWITCHES | 6 |
| THE BANK OF NY/TD BANK | 2 |
| TORONTO-DOMINION BANK (TDBANNK) | 3 |
| UBS FINANCIAL SERVICES (UBSFS) | 1 |
| UBS WARBURG | 2 |
| WEDBUSH MORGAN SECURITIES INC | 7 |
| WELLS FARGO SECURITIES, LLC | 3 |
| | <hr/> |
| Total | <u>14,854</u> |

Investment Balances

The fair value of investments administered by the State Treasurer at June 30, 2016 follows:

| | <u>Cost</u> | <u>Carrying Amount Fair Value</u> |
|----------------------------|-------------------------|---|
| Fiscal Agent Bank Account | \$ 42,002,853 | \$ 42,002,853 |
| Certificates of Deposit | 65,950,066 | 65,950,066 |
| Cash in Bank | 393,269,534 | 393,269,534 |
| U.S. Government Securities | 2,312,753,438 | 2,329,998,845 |
| Investment in LGIP | 171,554,633 | 171,554,633 |
| Municipal Bonds | 57,551,239 | 57,600,339 |
| Repurchase Agreements | 808,000,000 | 808,000,000 |
| Miscellaneous Cash | 6,870,000 | 6,870,000 |
| Asset Backed Bonds | 20,288,583 | 20,300,922 |
| Discounted Notes | 116,351,550 | 116,395,652 |
| | <hr/> | <hr/> |
| | 3,994,591,896 | 4,011,942,844 |
| Less interfund investments | (171,554,633) | (171,554,633) |
| Total | <u>\$ 3,823,037,263</u> | <u>\$ 3,840,388,211</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Balances (Continued)

The fair value includes repurchase agreements of \$190,453,025 of debt service funds reported in the Statement of Net Position - Governmental Activities and Governmental Funds Activity for general obligation funds and severance tax bond funds. In addition, it includes \$360,850 of cash in STO's general fund.

General Fund Investment Pool

The General Fund is the State of New Mexico's main operating account. All State revenues are credited to the General Fund. Income taxes, sales taxes, rents and royalties, and other recurring revenues are deposited into the fund. The fund also comprises numerous State agency accounts whose assets, by statute, must be held at the State Treasury. Expenditures are disbursed only in accordance with appropriations authorized by the State Legislature.

Consolidated Investment Pool (Tax-Exempt Bond Proceeds Investment Pool # 1)

The Tax-Exempt Bond Proceeds Investment Pool comprises pooled assets received through the issuance of tax-exempt State of New Mexico general obligation bonds, severance tax bonds, and supplemental severance tax bonds. The fund's objective is to preserve capital, provide liquidity, and generate returns relative to the true interest cost of all State of New Mexico debt outstanding in accordance with the Investment Policy of the Office of the State Treasurer.

Consolidated Investment Pool (Taxable Bond Proceeds Investment Pool # 2)

The Taxable Bond Proceeds Investment Pool comprises pooled assets received through the issuance of State of New Mexico severance tax bonds. The fund's objective is to preserve capital, provide liquidity, and generate returns relative to a benchmark and in accordance with the State Treasurer's Investment Policy.

Local Government Investment Pool (LGIP) (Short Term Investment Pool)

Cities, counties, and other agencies invest monies in the State Treasurer external investment pool (LGIP). In fiscal year 2016 LGIP implemented a portion of GASBS No. 79 Certain External Investment Pools and Pool Participants (See Note 7 for further detail), which permits external investments pools to elect to measure all of their investments at amortized cost. The LGIP investments are presented at fair value based on the valuation date in the financial statements. The individual participant balances remain at their amortized cost. As of June 30, 2016, LGIP amortized cost approximated fair value, difference is immaterial (see Schedule 7).

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10.1, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies, and are either direct obligations of the United States or are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Local Government Investment Pool (LGIP) (Short Term Investment Pool) (Continued)

the same investment committee and the same policies and procedures that apply to all other State investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the Local Government Investment Pool is voluntary. As of June 30, 2016, the WAM(R) of the LGIP was 44 days, and the WAM(F) was 77 days. The fund was rated AAAM by Standard & Poor's as of June 30, 2016.

Investment Guidelines and Limitations

The investment policy is a comprehensive guide governing the investment functions of the New Mexico State Treasurer with respect to all financial assets of the State of New Mexico invested by the State Treasurer in the exercise of his authority and for which the State Treasurer acts as the investing authority. These assets include, as examples only, the State General Fund, the Local Government Investment Pool, bond proceeds, bond debt service funds, and those pension and permanent funds and other special funds with respect to which the State Treasurer is the investing authority.

The investment policy and the public finance investment decisions of the State Treasurer must serve and satisfy several fiduciary, fiscal and financial obligations. In making these decisions and in resolving any conflict or competing considerations that may arise from time to time among these obligations, the State Treasurer will observe the following priority:

1. Preservation of Principal – to ensure the performance of basic governmental functions, the first priority must be accorded to the preservation and protection of the principal of the funds to be invested;
2. Maintenance of Liquidity – the second level of priority must be accorded to maintaining sufficient liquidity to satisfy the reasonably anticipated, continuing operational requirements of State Government, and
3. Maximum Return – the third priority must be accorded to maximizing investment return, through budgetary and economic cycles, consistent with the higher priority accorded to the security and liquidity of principal.

The standard of prudence to be applied in the investment of State assets shall be the "Prudent Person" rule that specifies that: "Investments shall be made with the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The State Treasurer or his designees, acting in accordance with this policy and any other written procedures pertaining to the investment of public money and exercising due

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Guidelines and Limitations (Continued)

diligence, shall be relieved of personal responsibility, if any, for credit risk or market price changes of a particular security, provided that deviations from expectations are timely noted and appropriate action is taken to control and prevent further adverse developments.

The scope of investment authority of the State Treasurer is defined by the applicable investment statutes and constitutional provisions, principally Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-14-10.1, NMSA 1978, as well as Article VIII, Section 4 of the New Mexico Constitution, specifying particular types of investments that may be made by the State Treasurer, which establish certain prerequisites, limitations and other requirements relating to those investments. Moreover, the State Treasurer, in his discretion, may further limit or restrict those investments.

The State Treasurer and the State Board of Finance have determined that only the following statutorily authorized investments may be made, and these investments shall be subject to further limitations or restrictions as follows:

Investments Permitted by Policy

1. U.S. Government Obligations – Securities backed by the full faith and credit of the U.S. government including direct obligations of the U.S. Treasury and obligations of U.S. Government agencies and instrumentalities which are guaranteed by the U.S. Treasury. Investments shall be limited to a maximum maturity of five (5) years at time of purchase, except securities for any advance refunding escrow which may be invested in securities with a maturity of more than five (5) years. These securities may be either fixed rate or variable rate.
2. U.S. Government Agency Obligations – Securities issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises, but which are not backed by the full faith and credit of the U.S. Government. These securities include mortgage-backed certificates, collateralized mortgage obligations, and debentures issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

Also included are direct obligations of the Federal Farm Credit Bank and the Federal Home Loan Bank. These obligations shall consist of discount notes, notes and debentures with either fixed or LIBOR-based floating rate coupons. Investments in U.S. government agency obligations shall be limited to a maximum maturity of five (5) years at time of purchase.

3. Commercial Paper – Unsecured obligations with a maturity up to 270 days at time of purchase issued by corporations organized and operating within the United States. The commercial paper shall have investment grade ratings and shall not be split-rated. If the rating declines below investment grade, the State Treasurer's Investment Committee (STIC) will meet to evaluate a course of action.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Permitted by Policy (Continued)

4. Corporate Bonds – Debt instruments issued by a corporation organized and operating in the United States with a maturity not exceeding five (5) years at time of purchase. Corporate bonds with maturities up to three (3) years shall be rated A1 or better at the time of purchase. Corporate bonds with maturities between three (3) and five (5) years shall be rated AA or better. If the rating declines below investment grade, then the STIC will meet to evaluate a course of action.
5. Asset-Backed Obligations – Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding five (5) years at time of purchase and rated AAA, or its equivalent, by all national rating agencies that rate the security. If the rating declines below AAA, or its equivalent, then the STIC will meet to evaluate a course of action.
6. Repurchase Agreements – Contracts for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the State. No contract shall be invested in unless the contract is fully secured by obligations of the United States, or its agencies or instrumentalities, or other securities backed by the United States having a market value of at least one hundred two percent (102%) of the amount of the contract. Repurchase agreements and flexible repurchase agreements shall be limited to a maximum maturity of one (1) year, but flexible repurchase agreements, in which bond proceeds are invested, may have a maximum maturity of three (3) years. Repurchase agreements for the Local Government Investment Pool shall be limited to a maximum maturity of thirty (30) days, although any underlying U.S. government obligations pledged as collateral may have maturities extending beyond the term of such repurchase agreements. Subject to these conditions and the prior approval of the State Board of Finance with respect to the custodial undertaking agreement, tri-party repurchase agreements are proper investments under this policy.
7. Bank, Savings and Loan Association or Credit Union Deposits – Deposits are allowed in certified and designated New Mexico financial institutions whose deposits are insured by an agency of the United States. All deposits will comply with state statute and State Board of Finance policies related to interest rate and collateral requirements. CD deposits shall not be made with custodial banks. Deposits shall be limited to a maximum maturity of three (3) years. A deposit in any credit union shall be limited to the amount insured by an agency of the United States.
8. Variable Rate Notes – Variable rate notes (VRN) may be United States government obligations, commercial paper or repurchase agreements. The use of VRNs is considered to be prudent in the management of the portfolio within certain maturity, indexing and
9. Municipal Securities – Pursuant to 6-14-10.1, the State Treasurer or designee may also invest in municipal securities that at time of purchase are investment grade and have a final maturity of up to three (3) years. If the rating declines below investment grade, then the STIC will meet to evaluate a course of action.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Permitted by Policy (Continued)

10. Securities Issued by the State or a Political Subdivision of the State, or any Agency, Institution or Instrumentality of the State or a Political Subdivision – These include, but are not limited to, the New Mexico Mortgage Finance Authority, the New Mexico Finance Authority and the New Mexico Educational Assistance Foundation, if the statute authorizing the issuance of such securities expressly authorizes the State or the State Treasurer to purchase such security.
11. Government Money Market Mutual Funds – Shares of an open-ended diversified investment company that: (i) is registered with the United State Securities and Exchange Commission; (ii) complies with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, of the United States Securities and Exchange Commission applicable to money market mutual funds; (iii) assesses no fees pursuant to Rule 12b-1, or any successor rule, of the United States Securities and Exchange Commission, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, however designated, provided that the State shall not, at any time, own more than five percent (5%) of a money market mutual fund's assets, and (iv) is rated AAA or equivalent by a nationally recognized rating agency. In addition, the State Treasurer may act as the investing authority for those agencies which have independent statutory authority to invest. The State Treasurer shall act in a manner consistent with each agency's guidelines and directives.
12. Local Government Investment Pool: General fund dollars may be invested in the Local Government Investment Pool (LGIP), up to five percent (5%) of the LGIP.

Unauthorized Investments/Investment Actions

The State Treasurer will not borrow funds for the sole purpose of investing those funds at a higher yield. The State Treasurer is not authorized by law to invest or as a matter of policy has determined not to invest in securities, assets, investment agreements or instruments except as specifically permitted in this Investment Policy. Accordingly, as examples only, the following securities, assets, investment agreements or instruments are presently impermissible:

1. Common or preferred stock
2. Exchange traded future contracts
3. Inverse floaters
4. Whole-loan mortgage obligations
5. Interest only and principal strips only as they relate to asset-backed obligations
6. Currency swaps
7. Range notes and index amortizing notes
8. Reverse repurchase agreements
9. Short sales

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that the State Treasurer will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of the State Treasurer and are held by either the counterparty of the counterparty's trust department of agent but not in the State Treasurer's name.

The State Treasurer's Investment Policy for safekeeping and custody states that all investment securities purchased by the State, held as collateral on repurchase agreements or held as collateral on securities lending arrangements shall be held in third-party safekeeping at a fiduciary qualified to act in this capacity. All securities held for the State account will be held free and clear of any lien and all transactions will be conducted in compliance with Section 6-10-10(O) NMSA 1978, which requires contemporaneous transfer and same day settlement. On a monthly basis, the custodian will provide reports which list all transactions that occurred during the month and all securities held for the State at month-end, including the book and market value of holdings. The Fiscal agent and representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the State shall be bonded in such a fashion as to protect from losses from malfeasance and misfeasance.

The State Treasurer's Office Collateral Manager reviews and tracks all state funds held in state depository institutions. Deposits and collateral are reviewed almost daily and a statutorily required risk assessment is performed quarterly, although the assessments are not intended as an opinion as to the financial health of the subject institution. The \$534,627,935 in balances are collateralized in compliance with NMAC 2.60.4. Although in compliance with NMAC 2.60.4 as of June 30, 2016, there was \$161,771,094 of the State Treasurer's bank balances of \$534,627,935 that was exposed to custodial credit risk as uninsured and uncollateralized.

Credit Risk

The State Treasurer's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub-asset classes and/or as outlined in each portfolio manager contract.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2016 for the general fund investment pool are as follows:

| <u>Securities by Quality Rating</u> | <u>Fair Value</u> | <u>Percentage of Portfolio</u> |
|-------------------------------------|-------------------|--------------------------------|
| AAA: | | |
| Municipals | \$ 1,978,055 | 0.11% |
| AA+: | | |
| Treasuries | 474,425,574 | 26.92% |
| Government Agency | 455,967,844 | 25.87% |
| Municipals | 1,824,523 | 0.10% |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

| <u>Securities by Quality Rating</u> | <u>Fair Value</u> | <u>Percentage of Portfolio</u> |
|-------------------------------------|-------------------------|--------------------------------|
| AA: | | |
| Municipals | \$ 4,968,766 | 0.28% |
| AA-: | | |
| Municipals | 2,528,699 | 0.14% |
| A: | | |
| Municipals | 200,008 | 0.01% |
| A-: | | |
| Municipals | 526,741 | 0.03% |
| NR: | | |
| Municipals | 4,256,533 | 0.24% |
| Investment in LGIP | 144,028 | 0.01% |
| Fiscal Agent Account | 42,002,853 | 2.38% |
| Cash Miscellaneous | 6,870,000 | 0.39% |
| Repurchase Agreements | 375,311,935 | 21.30% |
| Certificates of Deposit | 52,750,066 | 2.99% |
| Cash in Banks | 338,585,062 | 19.21% |
| Total | <u>\$ 1,762,340,687</u> | <u>100.00%</u> |

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2016 for the local government investment pool are as follows:

| <u>Securities by Quality Rating</u> | <u>Fair Value</u> | <u>Percentage of Portfolio</u> |
|-------------------------------------|-----------------------|--------------------------------|
| AA+: | | |
| Government Agency | \$ 15,017,400 | 2.00% |
| Government Agency | 328,737,545 | 43.84% |
| NR: | | |
| Cash in Banks | 54,684,472 | 7.29% |
| Discounted Notes | 116,395,652 | 15.52% |
| Repurchase Agreements | 235,000,000 | 31.34% |
| Total | <u>\$ 749,835,069</u> | <u>100.00%</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2016 for the Bond Proceeds Investment Pool #2 are as follows:

| <u>Securities by Quality Rating</u> | <u>Fair Value</u> | <u>Percentage of Portfolio</u> |
|-------------------------------------|-----------------------|------------------------------------|
| AAA: | | |
| Municipals | \$ 2,157,387 | 0.32% |
| AA+: | | |
| Treasuries | 249,933,000 | 36.82% |
| Government Agency | 246,479,939 | 36.31% |
| Municipals | 2,908,000 | 0.43% |
| Asset Backed Bonds | 10,150,461 | 1.50% |
| AA: | | |
| Municipals | 1,547,980 | 0.23% |
| AA-: | | |
| Municipals | 1,989,351 | 0.29% |
| A+: | | |
| Municipals | 1,683,217 | 0.25% |
| A: | | |
| Municipals | 879,055 | 0.13% |
| NR: | | |
| Repurchase Agreements | 40,501,974 | 5.97% |
| Certificates of Deposit | 10,200,000 | 1.50% |
| Investment in LGIP | 110,343,936 | 16.26% |
| Total | <u>\$ 678,774,300</u> | <u>100.00%</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2016 for the Bond Proceeds Investment Pool # 1 are as follows:

| <u>Securities by Quality Rating</u> | <u>Fair Value</u> | <u>Percentage of Portfolio</u> |
|-------------------------------------|-----------------------|------------------------------------|
| AAA: | | |
| Municipals | \$ 304,737 | 0.04% |
| AA+: | | |
| Treasury | 184,989,190 | 22.53% |
| Government Agency | 366,564,176 | 44.65% |
| Municipals | 5,251,748 | 0.64% |
| Municipals | 10,150,461 | 1.24% |
| AA: | | |
| Municipals | 11,606,221 | 1.41% |
| AA-: | | |
| Municipals | 5,448,857 | 0.66% |
| A+: | | |
| Municipals | 2,941,671 | 0.36% |
| A: | | |
| Municipals | 1,037,226 | 0.13% |
| NR: | | |
| Municipals | 3,561,565 | 0.43% |
| Government Agency | 7,884,176 | 0.96% |
| Repurchase Agreements | 157,186,091 | 19.15% |
| Mutual Funds | 61,066,669 | 7.44% |
| Certificates of Deposit | 3,000,000 | 0.37% |
| Total | <u>\$ 820,992,788</u> | <u>100.00%</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. It is the policy of the State to diversify its investment portfolios. Assets shall be diversified to reduce the risk of loss resulting from an over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The following diversification limitations shall be imposed on the portfolio:

1. Investment maturities will be staggered to avoid undue concentration of assets in a specific maturity sector and to reflect cash flow requirements.
2. Investment in callable instruments is permitted for the State General Fund, but the amount invested in callable instruments should not exceed twenty-five percent (25%) of the total amount invested of each portfolio. Investment in callable investments may be allowed in the local government investment pool, bond proceeds, bond debt service funds and such pension and permanent fund monies for which the State Treasurer is the investing authority. Investment in callable investments is prohibited for tax and revenue anticipation note proceeds (and any other liquidity vehicle).
3. The maximum level of CD deposits for the entire portfolio shall be \$400 million with not more than \$30 million in any single financial institution. The State Board of Finance urges banks to loan this money out in their respective local communities to spur economic development.
4. Investments in commercial paper, corporate bonds and asset-backed obligations shall not exceed forty percent (40%) of assets of each portfolio. Commercial paper and corporate bonds shall be limited, per issuer, to five percent (5%) of each portfolio.
5. Investments in United States agency securities issued by any single agency shall be limited to thirty-five percent (35%) of the combined portfolios.
6. Investment in repurchase agreements from any single provider shall be limited to thirty-five percent (35%) of the combined portfolios.
7. Investment in commercial paper and corporate bonds guaranteed by the full faith and credit of the United States government, with a final maturity not to exceed the expiration date of any such guarantee, shall not exceed forty percent (40%) of the assets of each portfolio. Commercial paper and corporate bonds guaranteed by the full faith and credit of the United States government shall be limited, per issuer, to twenty percent (20%) of each portfolio.
8. United States Government Agency issued mortgage-backed securities and collateralized mortgage obligations shall be limited to twenty-five percent (25%) of a portfolio.
9. Securities issued by a municipal entity shall be limited to fifteen percent (15%) of a portfolio.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

10. Securities issued by the State or a political subdivision of the State, or any agency, institution or instrumentality of the State shall be limited to fifteen percent (15%) of the general fund portfolio.

The following lists investments held in the general fund investment pool with a single issuer as a percentage of total:

| Securities | Fair Value | Percentage of Portfolio |
|--|-------------------|----------------------------|
| U.S. Treasury Obligations: | | |
| U.S. Treasuries | \$ 474,425,574 | 26.92% |
| U.S. Government Agency Obligations: | | |
| FFCB | 100,349,080 | 5.69% |
| FHLB | 34,905,440 | 1.98% |
| FHLMC | 137,517,600 | 7.80% |
| FNMA | 183,195,724 | 10.40% |
| Municipals | | |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 500,050 | 0.03% |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 1,000,130 | 0.06% |
| ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG | 200,014 | 0.01% |
| ALBUQUERQUE N MEX MUN SCH DIST NO 012 27/DEC/2007 | 200,618 | 0.01% |
| BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N | 500,685 | 0.03% |
| CHOCTAW CNTY MISS HOSP REV TAXABLE-CHOCTAW COUNTY | 256,533 | 0.01% |
| ENERGY NORTHWEST WASH ELEC REV FORMERLY KNOWN AS | 2,370,284 | 0.13% |
| GADSDEN INDEPENDENT SCHOOL DISTRICT NO 16 BOND | 2,000,000 | 0.11% |
| GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1 | 170,544 | 0.01% |
| KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006 | 179,004 | 0.01% |
| KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006 | 347,738 | 0.02% |
| LAS CRUCES N MEX HOLD HARMLESS GROSS RCPTS TAX | 158,415 | 0.01% |
| LAS CRUCES N MEX JT UTIL REV RFDG & IMPT | 1,094,386 | 0.06% |
| LAS CRUCES SCHOOL DISTRICT NO 2 BOND 08/MAR/2016 | 501,545 | 0.03% |
| NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B | 477,860 | 0.03% |
| NEW MEXICO ST SEVERANCE TAX RFDG-SER D 08/DEC/2010 | 100,013 | 0.01% |
| NEW MEXICO ST SEVERANCE TAX SER A 21/JUN/2012 | 180,023 | 0.01% |
| RIO RANCHO N MEX RFDG & IMPT 21/JUN/2016 | 838,282 | 0.05% |
| RUIDOSO N MEX WASTERWATER REV RFDG 12/JUL/2013 | 200,008 | 0.01% |
| SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO | 300,786 | 0.02% |
| SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO | 225,819 | 0.01% |
| SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2016 2% | 370,455 | 0.02% |
| SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2016 | 225,284 | 0.01% |
| SILVER CITY N MEX JT UTIL SYS REV RFDG-SER B | 259,510 | 0.01% |
| STATE OF NEW MEXICO - SANTA FE PUBLIC | 2,000,000 | 0.11% |
| TEXAS A & M UNIV SYS BRD REGTS PERM UNIV FD RFDG | 1,500,195 | 0.09% |
| TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006 | 125,144 | 0.01% |
| Certificate of Deposits | 52,750,066 | 2.99% |
| Miscellaneous Cash | 6,870,000 | 0.39% |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

| Securities | Fair Value | Percentage of Portfolio |
|------------------------------|-------------------------|----------------------------|
| Fiscal Agent Account | \$ 42,002,853 | 2.38% |
| Investment in LGIP | 144,028 | 0.01% |
| Repurchase Agreements | 375,311,935 | 21.30% |
| Cash in Banks | 338,585,062 | 19.21% |
| Total | <u>\$ 1,762,340,687</u> | <u>100%</u> |

The following lists investments held in the local government investment pool with a single issuer as a percentage of total:

| Securities | Fair Value | Percentage of Portfolio |
|--|-----------------------|----------------------------|
| U.S. Treasury Obligations: | | |
| U.S. Treasuries | \$ 15,017,400 | 2.00% |
| U.S. Government Agency Obligations: | | |
| FFCB | 117,829,966 | 15.71% |
| FHLB | 121,265,810 | 16.17% |
| FNMA | 42,486,844 | 5.67% |
| FHLMC | 47,154,925 | 6.29% |
| Cash | 54,684,472 | 7.29% |
| Discounted Notes | 116,395,652 | 15.52% |
| Repurchase Agreements | 235,000,000 | 31.34% |
| Total | <u>\$ 749,835,069</u> | <u>98%</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

The following lists investments held in the bond proceeds investment pool # 2 with a single issuer as a percentage of total:

| Securities | Fair Value | Percentage of Portfolio |
|--|-----------------------|----------------------------|
| U.S. Treasury Obligations: | | |
| U.S. Treasuries | \$ 249,933,000 | 36.82% |
| U.S. Government Agency Obligations: | | |
| FFCB | 504,205 | 0.07% |
| FHLMC | 73,661,670 | 10.85% |
| FNMA | 113,495,364 | 16.72% |
| FHLB | 58,818,700 | 8.67% |
| Municipal Bonds | | |
| ALBUQUERQUE METROPOLITAN ARROYO FLOOD CONTROL | 1,855,581 | 0.27% |
| ALBUQUERQUE N MEX ARPT REV RFDG 11/MAR/2008 | 1,000,130 | 0.15% |
| ALBUQUERQUE N MEX ARPT REV RFDG-SUB LIEN-SER A | 306,855 | 0.05% |
| ALBUQUERQUE N MEX MUN SCH DIST NO 012 SER B | 501,745 | 0.07% |
| BELEN N MEX 20/JUL/2016 01/AUG/2017 2% | 278,570 | 0.04% |
| BELEN N MEX 20/JUL/2016 01/AUG/2018 2% | 291,846 | 0.04% |
| BERNALILLO N MEX MUN SCH DIST NO 1 RFDG | 160,331 | 0.02% |
| CLOVIS NEW MEX GROSS RCPTS TAX REV RFDG & IMPT | 683,087 | 0.10% |
| COLFAX CNTY N MEX GROSS TAX RCPTS IMPT 24/FEB/2015 | 225,279 | 0.03% |
| GALLUP MC KINLEY CNTY N MEX SCH DIST NO 001 | 250,330 | 0.04% |
| JEMEZ VY N MEX PUB SCH DIST NO 031 25/NOV/2014 | 274,101 | 0.04% |
| LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013 | 476,055 | 0.07% |
| LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG 28/OCT/2015 | 282,222 | 0.04% |
| LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG-SER A | 195,115 | 0.03% |
| NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B | 301,806 | 0.04% |
| NEW MEXICO ST SEVERANCE TAX TAXABLE-SER C | 1,989,351 | 0.29% |
| PHILADELPHIA PA 27/JUL/2006 01/AUG/2024 5% | 572,200 | 0.08% |
| RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG | 600,816 | 0.09% |
| SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO | 400,876 | 0.06% |
| SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SER A | 268,154 | 0.04% |
| SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N | 250,540 | 0.04% |
| Repurchase Agreements | 40,501,974 | 5.97% |
| Certificate of Deposit | 10,200,000 | 1.50% |
| Asset Backed Bonds | 10,150,461 | 1.50% |
| Investment in LGIP | 110,343,936 | 16.26% |
| Total | <u>\$ 678,774,300</u> | <u>100.00%</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

The following lists investments held in the bond proceeds investment pool # 1 with a single issuer as a percentage of total:

| Securities | Fair Value | Percentage of Portfolio |
|--|----------------|----------------------------|
| U.S. Treasury Obligations: | | |
| U.S. Treasuries | \$ 184,989,190 | 22.53% |
| U.S. Government Agency Obligations: | | |
| FFCB | 39,147,450 | 4.77% |
| FHLMC | 154,827,940 | 18.86% |
| FNMA | 117,586,238 | 14.32% |
| FHLB | 55,002,548 | 6.70% |
| Finance Corp | 7,884,176 | 0.96% |
| Municipal Bonds | | |
| ALAMOGORDO N MEX TAXABLE-SER A 24/DEC/2014 | 45,123 | 0.01% |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 1,500,195 | 0.18% |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 665,086 | 0.08% |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 100,010 | 0.01% |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 540,038 | 0.07% |
| ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV | 450,032 | 0.05% |
| ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV | 192,657 | 0.02% |
| ALBUQUERQUE N MEX GROSS RCPTS TAX REV | 1,120,000 | 0.14% |
| ALBUQUERQUE N MEX GROSS RCPTS TAX REV | 602,214 | 0.07% |
| ALBUQUERQUE N MEX MET ARROYO FLOOD CTL AUTH | 304,737 | 0.04% |
| ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER | 601,332 | 0.07% |
| ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER | 721,598 | 0.09% |
| ARTESIA N MEX GROSS RCPTS TAX REV RFDG 15/SEP/2015 | 1,513,374 | 0.18% |
| ARTESIA N MEX GROSS RCPTS TAX REV RFDG 15/SEP/2015 | 266,633 | 0.03% |
| BEAUMONT TEX WTRWKS & SWR SYS REV SER A | 2,060,767 | 0.25% |
| BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N | 1,001,290 | 0.12% |
| GADSDEN N MEX INDPT SCH DIST NO 016 29/OCT/2014 | 475,831 | 0.06% |
| GRANT CNTY N MEX RFDG 11/DEC/2014 01/SEP/2016 2% | 315,680 | 0.04% |
| HOBBS N MEX MUN SCH DIST NO 16 26/MAY/2015 | 391,888 | 0.05% |
| LAS CRUCES N MEX SCH DIST NO 002 RFDG-SER B | 253,683 | 0.03% |
| NEW JERSEY ECONOMIC DEV AUTH RETIREMENT CMNTY REV | 3,561,565 | 0.43% |
| NEW MEXICO ST SEVERANCE TAX TAXABLE-SER C | 4,863,696 | 0.59% |
| ROSWELL N MEX INDPT SCH DIST SCH BLDG-SER A | 253,518 | 0.03% |
| RUIDOSO N MEX GROSS RCPTS TAX REV RFDG & IMPT | 158,630 | 0.02% |
| SAN JUAN CNTY N MEX GROSS RCPTS TAX REV RFDG-SER A | 721,546 | 0.09% |
| SAN JUAN CNTY N MEX JR COLLEGE DIST 10/NOV/2015 | 2,229,072 | 0.27% |
| SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2017 3% | 384,285 | 0.05% |
| SANDOVAL CNTY N MEX INCENTIVE PAYMENT REV | 101,499 | 0.01% |
| SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N | 2,620,100 | 0.32% |
| TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8 | 200,304 | 0.02% |
| UNIVERSITY N MEX UNIV REVS TAXABLE-RFDG & IMPT-SUB | 55,134 | 0.01% |
| UNIVERSITY N MEX UNIV REVS TAXABLE-RFDG & IMPT-SUB | 250,663 | 0.03% |
| UNIVERSITY N MEX UNIV REVS RFDG-TAXABLE-GNMA | 1,009,070 | 0.12% |
| UNIVERSITY N MEX VALENCIA CNTY BRANCH CMNTY | 620,775 | 0.08% |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

| Securities | Fair Value | Percentage of Portfolio |
|--------------------------------|-----------------------|----------------------------|
| Repurchase Agreement | \$ 157,186,091 | 19.15% |
| Asset Backed Bonds | 10,150,461 | 1.24% |
| Investment in LGIP | 61,066,669 | 7.44% |
| Certificate of Deposits | 3,000,000 | 0.37% |
| Total | <u>\$ 820,992,788</u> | <u>100.00%</u> |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The State Treasurer recognizes that any portfolio of marketable investment securities is subject to interest rate risk. The State Treasurer, in an attempt to limit the possibility of loss due to interest rate fluctuations, will attempt to match investments with anticipated cash requirements. The State Treasurer or designee shall give particular emphasis to the following factors when selecting a specific security for inclusion in the portfolio:

1. Relative Yield to Maturity: Comparison of return available from alternative investments for comparable maturity dates.
2. Marketability: Analysis of relative marketability of alternate investments in case of forced sale or possibility of future trades.
3. Intermarket Yield Analysis: Analysis of the spread relationship between sectors of the market (e.g., Treasury Bonds or Bills versus Agency Bonds or Discount Notes), to take advantage of aberrations in yield differentials.
4. Yield Curve Analysis: Analysis of the slope of the yield curve to determine the most attractive maturities for earning maximum return with minimal risk.
5. General Economic and Interest Rate Outlook: Review and analysis of current literature on interest rate projections to assist in timing transactions and selecting appropriate maturities.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

Maturities on investments in the general fund investment pool are as follows:

| <u>Securities by Quality Rating</u> | <u>Fair Value</u> | <u>Maturities</u> | |
|-------------------------------------|-------------------------|-----------------------------|-----------------------|
| | | <u>Less than 1 Year</u> | <u>1-5 Years</u> |
| AAA: | | | |
| Municipals | \$ 1,978,055 | \$ 477,860 | \$ 1,500,195 |
| AA+: | | | |
| Treasuries | 474,425,574 | 42,066,519 | 432,359,055 |
| Gov Agency | 455,967,844 | 185,335,990 | 270,631,854 |
| Municipals | 1,824,523 | 1,297,918 | 526,605 |
| AA: | | | |
| Municipals | 4,968,766 | 4,709,255 | 259,511 |
| AA-: | | | |
| Municipals | 2,528,699 | - | 2,528,699 |
| A: | | | |
| Municipals | 200,008 | 200,008 | - |
| A-: | | | |
| Municipals | 526,741 | - | 526,741 |
| NR: | | | |
| Municipals | 4,256,533 | 4,000,000 | 256,533 |
| Investment in LGIP | 144,028 | 144,028 | - |
| Fiscal Agent Account | 42,002,853 | 42,002,853 | - |
| Cash Miscellaneous | 6,870,000 | 6,870,000 | - |
| Repurchase Agreements | 375,311,935 | 375,311,935 | - |
| Certificate of Deposits | 52,750,066 | 52,750,066 | - |
| Cash in Banks | 338,585,062 | 338,585,062 | - |
| Total | <u>\$ 1,762,340,687</u> | <u>\$ 1,053,751,494</u> | <u>\$ 708,589,193</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

Maturities on investments in the local government investment pool are as follows:

| Securities by Quality Rating | Fair Value | Maturities | |
|------------------------------|-----------------------|-----------------------|-----------------------|
| | | Less than 1 Year | 1-5 Years |
| AA+: | | | |
| Gov Agency | \$ 15,017,400 | \$ - | \$ 15,017,400 |
| Gov Agency | 328,737,545 | - | 328,737,545 |
| NR: | | | |
| Cash | 54,684,472 | 54,684,472 | - |
| Discounted Notes | 116,395,652 | 116,395,652 | - |
| Repurchase Agreements | 235,000,000 | 235,000,000 | - |
| Total | <u>\$ 749,835,069</u> | <u>\$ 406,080,124</u> | <u>\$ 343,754,945</u> |

Maturities on investments in the bond proceeds investment pool # 2 are as follows:

| Securities by Quality Rating | Fair Value | Maturities | |
|------------------------------|-----------------------|-----------------------|-----------------------|
| | | Less than 1 Year | 1-5 Years |
| AAA: | | | |
| Municipals | \$ 2,157,387 | \$ 301,800 | \$ 1,855,587 |
| AA+: | | | |
| Treasuries | 249,933,000 | 155,388,050 | 94,544,950 |
| Gov Agency | 246,479,939 | 80,594,150 | 165,885,789 |
| Municipals | 2,908,000 | 2,438,784 | 469,216 |
| Asset Backed Securities | 10,150,461 | 10,150,461 | - |
| AA: | | | |
| Municipals | 1,547,980 | 475,819 | 1,072,161 |
| AA-: | | | |
| Municipals | 1,989,351 | - | 1,989,351 |
| A+: | | | |
| Municipals | 1,683,217 | 1,683,217 | - |
| A: | | | |
| Municipals | 879,055 | 306,855 | 572,200 |
| NR: | | | |
| Repurchases Agreements | 40,501,974 | 40,501,974 | - |
| CD's | 10,200,000 | 10,200,000 | - |
| Investment in LGIP | 110,343,936 | 110,343,936 | - |
| Total | <u>\$ 678,774,300</u> | <u>\$ 412,385,046</u> | <u>\$ 266,389,254</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

Maturities on investments in the bond proceeds investment pool # 1 are as follows:

| <u>Securities by Quality Rating</u> | <u>Fair Value</u> | <u>Maturities</u> | |
|-------------------------------------|-----------------------|-----------------------------|-----------------------|
| | | <u>Less than 1 Year</u> | <u>1-5 Years</u> |
| AAA: | | | |
| Municipals | \$ 304,737 | \$ - | \$ 304,737 |
| AA+: | | | |
| Treasury | 184,989,190 | 84,146,790 | 100,842,400 |
| Gov Agency | 366,564,176 | 121,915,200 | 244,648,976 |
| Municipals | 5,251,748 | 2,124,447 | 3,127,301 |
| Asset Backed Bonds | 10,150,461 | - | 10,150,461 |
| AA: | | | |
| Municipals | 11,606,221 | 7,400,504 | 4,205,717 |
| AA-: | | | |
| Municipals | 5,448,857 | 585,161 | 4,863,696 |
| A+: | | | |
| Municipals | 2,941,671 | 620,775 | 2,320,896 |
| A: | | | |
| Municipals | 1,037,226 | 1,037,226 | - |
| NR: | | | |
| Municipals | 3,561,565 | - | 3,561,565 |
| Gov Agency | 7,884,176 | 7,884,176 | - |
| Repurchase Agreements | 157,186,091 | 157,186,091 | - |
| CD'S | 61,066,669 | 61,066,669 | - |
| Investment in LGIP | 3,000,000 | 3,000,000 | - |
| Total | <u>\$ 820,992,788</u> | <u>\$ 446,967,039</u> | <u>\$ 374,025,749</u> |

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State Treasurer's investment policy does not have a specific policy on foreign currency risk. However, the listing of permissible investments includes descriptions on the limitations related to each investment type.

All holdings at June 30, 2016 were denominated in United States Dollars.

The State General Fund Investment Pool and the Consolidated Investment Pool (BPIP #1 and #2) are part of the Local Government Fund Investment Pool (LGIP), and whenever a combined presentation of the Investment Trust Fund is presented, these investments are eliminated.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Securities Collateralizing Repurchase Agreements

The State's Investment Policy states that no repurchase agreements shall be entered into unless the contract is fully secured by deliverable obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent (102%) of the amount of the contract. The State's collateral requirements follow:

1. The market value of the collateral including accrued interest must be equal to one hundred two percent (102%) of the amount of cash transferred by the State Treasurer to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the market value of securities held as collateral slips below one hundred two percent (102%) of the value of the cash transferred plus accrued interest, then additional cash and/or acceptable securities must be delivered to the third party custodian sufficient to cure any deficiency, and
2. For repurchase agreements with terms to maturity of greater than one (1) day, the State will value the collateral securities continuously and require that, if additional collateral is required, then that collateral must be delivered within one business day. If a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated, and
3. The collateral on all repurchase agreements will have a maturity date that exceeds the term of the repurchase agreement. If the duration of the collateral is longer than ten (10) years than the term of the repurchase agreement, then the collateral margin must be 103% to compensate for market risk.

Credit ratings and concentration of risk on collateral securities are as follows:

| <u>Securities by Quality Rating</u> | <u>Fair Value</u> | <u>Percentage of Portfolio</u> |
|-------------------------------------|------------------------------|--------------------------------|
| AA+: | | |
| U.S. Government Agency Obligations | <u>\$ 828,513,510</u> | <u>100.00%</u> |
| Total | <u><u>\$ 828,513,510</u></u> | <u><u>100.00%</u></u> |

Maturities on collateral are as follows:

| <u>Securities by Quality Rating</u> | <u>Maturities</u> | | | | | |
|--|------------------------------|-------------------------|------------------------------|-----------------------------|------------------------------|------------------------------|
| | <u>Fair Value</u> | <u>Less than 1 Year</u> | <u>1-5 Years</u> | <u>6-10 Years</u> | <u>11-20 Years</u> | <u>Over 20 Years</u> |
| AA+: | | | | | | |
| U.S. Government Mortgage Backed Securities | <u>\$ 828,513,510</u> | <u>\$ -</u> | <u>\$ 340,848,878</u> | <u>\$ 50,980,467</u> | <u>\$ 174,363,472</u> | <u>\$ 262,320,693</u> |
| Total | <u><u>\$ 828,513,510</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 340,848,878</u></u> | <u><u>\$ 50,980,467</u></u> | <u><u>\$ 174,363,472</u></u> | <u><u>\$ 262,320,693</u></u> |

Schedule 10 discloses collateral pledged for repurchase agreements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value of Financial Instruments

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The Office categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The State Treasurer has the following recurring fair value measurements as of June 30, 2016:

| | Fair Value Measurements Using | | | |
|----------------------------|--------------------------------|------------------------------|-------------------------|-------------------------|
| | Quoted Prices in Level 1 | Observable Inputs Level 2 | Unobservable Level 3 | Fair Value 6/30/2016 |
| Debt Securities: | | | | |
| U.S. Government Securities | \$ - | \$ 2,329,998,845 | \$ - | \$ 2,329,998,845 |
| Municipal Bonds | - | 57,600,339 | - | 57,600,339 |
| Repurchase Agreements | - | 808,000,000 | - | 808,000,000 |
| Asset Backed Bonds | - | 20,300,922 | - | 20,300,922 |
| Discounted Notes | - | 116,395,652 | - | 116,395,652 |
| Total Debt Securities | - | 3,332,295,758 | - | 3,332,295,758 |
| Total Investments | | | | |
| Measured by Fair Value | \$ - | \$ 3,332,295,758 | \$ - | \$ 3,332,295,758 |

NOTE 7 EXTERNAL INVESTMENT POOL (LGIP) – AMORTIZED COST

In December 2015, GASB issued statement No. 79 titled “Certain External Investment Pools and Pool Participants”, which established criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. If the external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool’s participants also should measure their investments in that external investment pool at cost for financial reporting purposes. Most provisions of GASBS No. 79 are effective for reporting periods beginning after June 15, 2015. Certain provisions relating to portfolio quality, custodial credit risk, and shadow pricing are effective for reporting periods beginning after December 15, 2015. STO elected to implement the amortized cost provision of GASB 79 as of June 30, 2016, and will implement the portfolio quality, custodial credit risk, and shadow pricing as of July 1, 2016 or for fiscal year 2017. The difference between the amortized cost and fair value is immaterial, as of June 30, 2016. GASBS 79 was in response to the Securities and Exchange Commission’s amendments in 2014 to regulations that apply to money market funds.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 EXTERNAL INVESTMENT POOL (LGIP) – AMORTIZED COST (CONTINUED)

Below are the limitations or restrictions on LGIP participant withdrawals:

- Amounts less than \$30 million may be withdrawn within 24 hours of notice to the State Treasurer;
- Amounts of \$30 million to \$60 million require notice of 2 business days to the State Treasurer;
- Amounts of \$60 million to \$100 million require notice of 5 business days to the State Treasurer;
- Amounts in excess of \$100 million require notification of 10 business days to the State Treasurer.

Notwithstanding the withdrawal guidelines, the State Treasurer reserves the right to limit participant withdrawals if the State Treasurer determines that doing so is required to ensure the stability of the LGIP.

NOTE 8 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

| | <u>Balance, June 30, 2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance, June 30, 2016</u> |
|--------------------------------|-----------------------------------|------------------|------------------|-----------------------------------|
| Governmental Activities: | | | | |
| Depreciable Assets: | | | | |
| Equipment | \$ 263,731 | \$ 18,534 | \$ 94,495 | \$ 187,770 |
| Total Capital Assets | <u>263,731</u> | <u>18,534</u> | <u>94,495</u> | <u>187,770</u> |
| Less Accumulated Depreciation: | | | | |
| Equipment | 246,192 | 7,972 | 94,495 | 159,669 |
| Total | <u>\$ 17,539</u> | <u>\$ 10,562</u> | <u>\$ -</u> | <u>\$ 28,101</u> |

Depreciation expense was charged to functions/programs of the State Treasurer's Office as follows:

| | |
|--------------------------|-----------------|
| Governmental activities: | |
| General government | <u>\$ 7,972</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 LONG-TERM OBLIGATIONS

Compensated Absences

As in prior years, the general fund is used to liquidate compensated absences. Following are the changes in compensated absences for the year ended June 30, 2016:

| | Balance, June 30, 2015 | Increase | (Decrease) | Balance, June 30, 2016 | Amounts Due within One Year |
|-----------------------------|---------------------------|-------------------|--------------------|---------------------------|--------------------------------------|
| Compensated Absences | <u>\$ 97,791</u> | <u>\$ 110,546</u> | <u>\$ (22,261)</u> | <u>\$ 186,076</u> | <u>\$ 186,076</u> |

NOTE 10 CONDENSED FINANCIAL STATEMENTS

Condensed financial statements of the Investment Trust Fund, inclusive of external and internal participants for the fiscal year ended June 30, 2016 are as follows:

ASSETS

| | |
|--------------------------------|-------------------------|
| Investments | \$ 3,840,388,211 |
| Due from Broker | 3,911 |
| Interest and Other Receivables | 7,872,216 |
| Total Assets | <u>\$ 3,848,264,338</u> |

LIABILITIES

| | |
|-------------------|---------------|
| Due to Broker | \$ 39,295,605 |
| Other Liabilities | 28,307 |

NET POSITION

| | |
|--|-------------------------|
| External Participant Account Balances | 579,044,319 |
| Other Internal Participant Account Balances: | |
| Primary Government | 3,229,896,107 |
| Total Liabilities And Net Position | <u>\$ 3,848,264,338</u> |

At June 30, 2016, the State Treasurer's investment income earnings were as follows:

| | |
|----------------------------------|----------------------|
| Local Government Investment Pool | \$ 2,150,467 |
| Consolidated Investment Pool | 12,016,211 |
| State Funds Investment Pool | 23,940,722 |
| Total | <u>\$ 38,107,400</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 APPROPRIATIONS

The State Treasurer received the following appropriations for the year ended June 30, 2016:

| | |
|---|--------------|
| General Fund | |
| General Appropriation (General Appropriation Act) | \$ 3,756,800 |

NOTE 12 COLLATERAL IN TRUST

The State Treasurer holds a variety of different types of collateral, government guaranteed loans and mortgages, certificates of deposit, surety bonds, etc., for certain State agencies, which are not included in the financial statements.

NOTE 13 DUE TO/FROM OTHER STATE AGENCIES

| Due to State Treasurer's Office | Fund No. | Amount | Due from Agency/Purpose | Fund No. | Amount |
|------------------------------------|-------------|---------------|---|-------------|---------------|
| Severance Tax Bonding Fund | 41000 | \$ 51,309,776 | Tax & Revenue Dept. of Finance & Administration | 83300 | \$ 51,309,776 |
| G.O. 2009 Series Debt Service | 10630 | 5,128,751 | Dept. of Finance & Administration | 80000 | 5,128,751 |
| G.O. 2011 Series Debt Service | 11630 | 443,247 | Dept. of Finance & Administration | 80000 | 443,247 |
| G.O. 2013 Series Debt Service | 11680 | 3,076,357 | Dept. of Finance & Administration | 80000 | 3,076,357 |
| G.O. 2007 Series Debt Service | 28800 | 3,525,237 | Dept. of Finance & Administration | 80000 | 3,525,237 |
| G.O. 2015 Series Debt Service | 35170 | 3,332,308 | Dept. of Finance & Administration | 80000 | 3,332,308 |
| G.O. 2013 Series Debt Service | 11680 | 938,722 | Board of Finance | 34103 | 938,722 |
| Severance Tax Bonding Fund | 41000 | 5,468,464 | Board of Finance | 34103 | 5,468,464 |
| | | \$ 73,222,862 | | | \$ 73,222,862 |

Purpose: To receive tax receipts billed by other state agencies.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 TRANSFERS

Interfund Transfers

Interfund transfers are completed to move revenue from various debt service funds to specific Debt Service funds per bond resolutions, to cover principal and interest payments.

Severance Tax Bonds (see schedule 5):

| SHARE Fund | Transfer from | Amount | SHARE Fund | Transfer to | Amount |
|---------------|-------------------------|-----------------------|---------------|----------------------------|-----------------------|
| 41000 | Severance Tax Bond Fund | \$ 19,421,387 | 10750 | 2009-A Series Debt Service | \$ 19,421,387 |
| 41000 | Severance Tax Bond Fund | 16,958,798 | 10950 | 2010-A Series Debt Service | 16,958,798 |
| 41000 | Severance Tax Bond Fund | 12,471,720 | 10960 | 2010-B Series Debt Service | 12,471,720 |
| 41000 | Severance Tax Bond Fund | 32,513,573 | 11280 | Series 2011A-1 Refunding | 32,513,573 |
| 41000 | Severance Tax Bond Fund | 8,239,068 | 11480 | 2010-D Series Debt Service | 8,239,068 |
| 41000 | Severance Tax Bond Fund | 19,282,440 | 11770 | Series 2013A | 19,282,440 |
| 41000 | Severance Tax Bond Fund | 14,777,379 | 12160 | Series 2014A | 14,777,379 |
| 41000 | Severance Tax Bond Fund | 17,456,366 | 30820 | Series 2012A Refunding | 17,456,366 |
| 41000 | Severance Tax Bond Fund | 6,220,474 | 30830 | Series 2011A-2 Refunding | 6,220,474 |
| 41000 | Severance Tax Bond Fund | 6,008,543 | 50170 | Series 2015B | 6,008,543 |
| 41000 | Severance Tax Bond Fund | 7,814,522 | 50180 | Series 2015A | 7,814,522 |
| | | <u>\$ 161,164,270</u> | | | <u>\$ 161,164,270</u> |

General Obligation Bonds (see schedule 3):

| SHARE Fund | Transfer from | Amount | SHARE Fund | Transfer to | Amount |
|---------------|--------------------------|---------------------|---------------|--------------------------|---------------------|
| 10630 | Series 2009 Debt Service | \$ 879 | 03100 | 2003 Series Debt Service | \$ 141 |
| 11680 | 2013 Series Debt Service | 879 | 03200 | 2005 Series Debt Service | 141 |
| 28800 | 2007 Series Debt Service | <u>8,700,878</u> | 41400 | 2001 Series Debt Service | 118 |
| | | | 35170 | 2015 Series Debt Service | 6,199,122 |
| | | | 41800 | 2003B Series Refunding | 3,993 |
| | | | 11630 | 2011 Series Debt Service | 2,499,121 |
| | | <u>\$ 8,702,636</u> | | | <u>\$ 8,702,636</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 TRANSFERS (CONTINUED)

Interagency Transfers

Transfers to/from Other State Agencies – Severance Tax Bonds

| <u>Transfers from (Purpose)</u> | <u>Fund No.</u> | <u>Amount</u> | <u>Transfers to (Purpose)</u> | <u>Fund No.</u> | <u>Amount</u> |
|-------------------------------------|---------------------|-----------------------|-----------------------------------|---------------------|-----------------------|
| Board of Finance | 34103 | \$ 5,684,809 | Severance Tax Bonding Fund | 41000 | \$ 5,684,809 |
| Severance Tax Bonding Fund | 41000 | <u>(8,468,140)</u> | Severance Tax Permanent Fund | 60200 | <u>(8,468,140)</u> |
| | | <u>\$ (2,783,331)</u> | | | <u>\$ (2,783,331)</u> |

Transfers to/from Other State Agencies – General Obligation Bonds

| <u>Transfers from (Purpose)</u> | <u>Fund No.</u> | <u>Amount</u> | <u>Transfers to (Purpose)</u> | <u>Fund No.</u> | <u>Amount</u> |
|-------------------------------------|---------------------|---------------------|-----------------------------------|---------------------|---------------------|
| Board of Finance | 34103 | \$ 938,722 | 2013 Series Debt Service | 11680 | \$ 938,722 |
| Board of Finance | 34103 | 125,185 | 2011 Series Debt Service | 11630 | 125,185 |
| Board of Finance | 34103 | 218 | 2007 Series Debt Service | 28800 | 218 |
| Total - Severance Tax Bond Funds | | <u>\$ 1,064,125</u> | | | <u>\$ 1,064,125</u> |

NOTE 15 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially all of the State Treasurer’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The State Treasurer’s Office is required to contribute 16.99% of the gross covered salary. The contribution

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

Funding Policy (Continued)

requirements of plan members and the State Treasurer's Office are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The State Treasurer's contributions to PERA for the fiscal years ended June 30, 2016, 2015 and 2014 were \$341,552, \$334,242 and \$332,687, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 16 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The State Treasurer's Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978).

The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years, and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

**NOTE 16 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy (Continued)

premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1, and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary, and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The State Treasurer's contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014 were \$40,592, \$39,361 and \$40,179, respectively, which equal the required contributions for each year.

NOTE 17 RISK MANAGEMENT

The State Treasurer is exposed to various risks of loss for which the State Treasurer carries insurance (auto; employee fidelity bond; general liability; civil rights and foreign jurisdiction; money and securities; property, and workers' compensation) with the State of New Mexico Risk Management Division. Public employee fidelity bonding coverage is self-insured by the State of New Mexico. The current policy year is July 1, 2015 to June 30, 2016. The limit of coverage is \$5,000,000, with \$1,000 deductible per occurrence. All State Treasurer employees are covered by this bond.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 17 RISK MANAGEMENT (CONTINUED)

The State Treasurer had no significant reductions in insurance coverage from coverage in the prior year. In the fiscal years ended June 30, 2016, 2015 and 2014, there were no settlements that exceeded insurance coverage.

NOTE 18 MEMORANDUM OF UNDERSTANDING

The Office is party to the following Memorandum of Understanding, which may be terminated by either party upon thirty days' written notice to the other party:

New Mexico Educational Retirement Board (NMERB) dated June 17, 2015. Under this agreement, the Office invests certain monies belonging to NMERB within the Local Government Investment Pool (LGIP) in accordance with the Office's investment policies. The parties agree that the management fee on the LGIP is 0.05% (five basis points); the Office agrees to notify NMERB should the rate of return on LGIP assets fall below the management fee.

NOTE 19 REVERSION TO THE STATE GENERAL FUND

Under State Statute 6-5-10 NMSA, 1978, all unassigned fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30 to the general fund. The division may adjust the reversion within forty-five days of release of the audit report for that fiscal year.

The amount expected to revert to the State General Fund as of June 30, 2016 was \$138,868. The amount Due to the State General Fund as of June 30, 2016 is \$139,531.

NOTE 20 SHORT-TERM DEBT

Sponge Bonds

The State Board of Finance issues one to three day sponge bonds. Sponge bonds were purchases on the dates specified below. Bond proceeds are recorded by the State Board of Finance. Principal and interest payments were made from the Severance Tax Bonding Fund (SHARE Fund 41000) as follows:

| | <u>Purchased</u> | <u>Matured</u> | <u>Principal Payments</u> | <u>Interest Payments</u> | <u>Total</u> |
|------------------------------------|------------------|----------------|-------------------------------|------------------------------|-----------------------|
| Sponge Bond - Senior Note | 12/29/2015 | 12/30/2015 | \$ 8,614,496 | \$ 98 | \$ 8,614,594 |
| Sponge Bond - Supplemental Note | 12/29/2015 | 12/30/2015 | 23,203,200 | 264 | 23,203,464 |
| Sponge Bond - Supplemental Note | 6/29/2016 | 6/30/2016 | <u>104,086,200</u> | <u>1,434</u> | <u>104,087,634</u> |
| Total | | | <u>\$ 135,903,896</u> | <u>\$ 1,796</u> | <u>\$ 135,905,692</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 20 SHORT-TERM DEBT (CONTINUED)

Sponge Bonds (Continued)

Short-term debt activity for the year ended June 30, 2016 was as follows:

| | Balance, June 30, 2015 | Issued | Redeemed | Issuance Costs | Balance, June 30, 2016 |
|--------------|---------------------------|----------------|----------------|-------------------|---------------------------|
| Sponge Bonds | \$ - | \$ 135,903,896 | \$ 135,903,896 | \$ - | \$ - |

NOTE 21 BOND ISSUANCE ACTIVITY

During fiscal year 2016, there were five new bond issues as noted below:

- \$129,195,000 STB - Series 2015A
- \$69,745,000 SSTB - Series 2016B
- \$260,145,000 STB - 2016A & Refunding STB – 2016B
- \$41,925,000 STB - Series 2016C

Total activity related to the bonds was approximately as follows: costs - \$1,023,548; premiums - \$82,238,520; and transfers to other state agencies of \$502,033,548.

Rather than being recorded in the financial statements of a specific component unit, the long-term debt is only recorded in the State of New Mexico Comprehensive Annual Financial Report.

NOTE 22 FUND BALANCES

The Department's fund balances represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2016 follows:

| | General Fund | General Obligation Bond Fund | Severance Tax Bond Fund |
|---------------------|-----------------|------------------------------------|-------------------------------|
| Fund Balances: | | | |
| Restricted for: | | | |
| Debt Service | \$ - | \$ 45,894,883 | \$ 217,661,804 |
| Unassigned | - | - | - |
| Total Fund Balances | <u>\$ -</u> | <u>\$ 45,894,883</u> | <u>\$ 217,661,804</u> |

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 23 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS

GASB has issues the following statements, which are applicable in future years. At this time, management has not determined the impact, if any on the Agency.

Statement No. 74

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

Establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 23 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

GASB Statement No. 77
Tax Abatement Disclosures

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after December 15, 2015. Earlier application is encouraged.

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 23 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 1 - CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS -
 SCHEDULE OF CHANGES BY ASSET CLASS AND SOURCE
 YEAR ENDED JUNE 30, 2016**

| | <u>Balance June 30, 2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2016</u> |
|---|----------------------------------|-------------------------|-------------------------|----------------------------------|
| GOVERNMENTAL FUNDS | | | | |
| CAPITAL ASSETS | | | | |
| Equipment, Furniture and Fixtures | <u>\$ 263,731</u> | <u>\$ 18,534</u> | <u>\$ 94,495</u> | <u>\$ 187,770</u> |
| Total Governmental Funds Capital Assets by Source | <u><u>\$ 263,731</u></u> | <u><u>\$ 18,534</u></u> | <u><u>\$ 94,495</u></u> | <u><u>\$ 187,770</u></u> |
| INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS | | | | |
| General Fund Revenues | <u>\$ 263,731</u> | <u>\$ 18,534</u> | <u>\$ 94,495</u> | <u>\$ 187,770</u> |
| Total Governmental Funds Capital Assets | 263,731 | 18,534 | 94,495 | 187,770 |
| Less Accumulated Depreciation Equipment | <u>246,192</u> | <u>7,972</u> | <u>94,495</u> | <u>159,669</u> |
| Total | <u><u>\$ 17,539</u></u> | <u><u>\$ 10,562</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 28,101</u></u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 2 - COMBINING BALANCE SHEET - GENERAL OBLIGATION BONDS -
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS
JUNE 30, 2016**

| | SHARE Fund | Assets | | | Liabilities |
|-------------------------------------|---------------|--------------------------|----------------------|----------------------|----------------------|
| | | Repurchase Agreements | Due From | | Total Liabilities |
| | | | Other Agencies | Total Assets | |
| 2003 Series - Debt Service | 03100 | \$ - | \$ - | \$ - | \$ - |
| 2005 Series - Debt Service | 03200 | - | - | - | - |
| 2007 Series - Debt Service | 28800 | 2,758,958 | 3,525,237 | 6,284,195 | - |
| 2001 Series - Debt Service | 41400 | - | - | - | - |
| 2003B Series - Refunding | 41800 | 4 | - | 4 | - |
| 2009 Series - Debt Service | 10630 | 11,427,213 | 5,128,750 | 16,555,963 | - |
| 2011 Series - Debt Service | 11630 | 1,628,313 | 443,247 | 2,071,560 | - |
| 2013 Series - Debt Service | 11680 | 2,563,198 | 4,015,079 | 6,578,277 | - |
| 2008A Series - Redemption | 73030 | 220,698 | - | 220,698 | - |
| 2008A Series - Debt Service | 73010 | - | - | - | - |
| 2015 Series - Debt Service | 35170 | 10,076,999 | 3,332,308 | 13,409,307 | - |
| Total Debt Service | | 28,675,383 | 16,444,621 | 45,120,004 | - |
| 2003 Series - Rebate | 41300 | 4,852 | - | 4,852 | - |
| 2001 Series - Rebate | 41500 | 56 | - | 56 | - |
| 2003 Refunding Series - Rebate | 41900 | 9 | - | 9 | - |
| 2005 Series - Rebate | 42600 | 649,640 | - | 649,640 | - |
| 911 - Rebate | 48800 | - | - | - | - |
| Total Rebate Accounts | | 654,557 | - | 654,557 | - |
| 2009 Series - Cost of Issuance | 10650 | - | - | - | - |
| 2011 Series - Cost of Issuance | 11320 | (650) | - | (650) | - |
| 2013 Series - Cost of Issuance | 11620 | 13,826 | - | 13,826 | - |
| 2015 Series - Cost of Issuance Fund | 40130 | 107,146 | - | 107,146 | - |
| Total Cost of Issuance | | 120,322 | - | 120,322 | - |
| COMBINED TOTAL | | \$ 29,450,262 | \$ 16,444,621 | \$ 45,894,883 | \$ - |

| Fund Balance | | |
|---|--------------------------|---------------------------------------|
| Balance Restricted for Debt Service | Total Fund Balance | Total Liabilities & Fund Equity |
| \$ - | \$ - | \$ - |
| - | - | - |
| 6,284,195 | 6,284,195 | 6,284,195 |
| - | - | - |
| 4 | 4 | 4 |
| 16,555,963 | 16,555,963 | 16,555,963 |
| 2,071,560 | 2,071,560 | 2,071,560 |
| 6,578,277 | 6,578,277 | 6,578,277 |
| 220,698 | 220,698 | 220,698 |
| - | - | - |
| 13,409,307 | 13,409,307 | 13,409,307 |
| 45,120,004 | 45,120,004 | 45,120,004 |
| 4,852 | 4,852 | 4,852 |
| 56 | 56 | 56 |
| 9 | 9 | 9 |
| 649,640 | 649,640 | 649,640 |
| - | - | - |
| 654,557 | 654,557 | 654,557 |
| - | - | - |
| (650) | (650) | (650) |
| 13,826 | 13,826 | 13,826 |
| 107,146 | 107,146 | 107,146 |
| 120,322 | 120,322 | 120,322 |
| <u>\$ 45,894,883</u> | <u>\$ 45,894,883</u> | <u>\$ 45,894,883</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 3 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GENERAL OBLIGATION DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2016**

| | SHARE Fund | Revenues | | Expenditures | |
|-------------------------------------|---------------|---------------------|-------------------------------|--|------------------|
| | | Interest Income | State Property Tax Levy | Principal and Interest on Long-Term Debt | Other Charges |
| 2003 Series - Debt Service | 03100 | \$ - | \$ - | \$ - | \$ - |
| 2005 Series Debt Service | 03200 | - | - | - | - |
| 2007 Series - Debt Service | 28800 | 26,463 | 11,286,333 | 17,463,750 | 684 |
| 2001 Series - Debt Service | 41400 | - | - | - | - |
| 2003-B Series - Refunding | 41800 | 14 | - | - | - |
| 2009 Series - Debt Service | 10630 | 123,055 | 23,263,195 | 25,878,500 | 683 |
| 2011 Series - Debt Service | 11630 | 24,770 | 2,184,879 | 2,243,550 | 684 |
| 2013 Series - Debt Service | 11680 | 256,832 | 12,632,296 | 15,323,148 | 683 |
| 2008A Series - Redemption | 73030 | - | - | - | - |
| 2008A Series - Debt Service | 73010 | - | - | - | - |
| 2015 Series - Debt Service | 35170 | 1,253,309 | 24,772,816 | 17,209,633 | 684 |
| Total Debt Service | | 1,684,443 | 74,139,519 | 78,118,581 | 3,418 |
| 2003 Series - Rebate | 41300 | 39 | - | - | - |
| 2001 Series - Rebate | 41500 | - | - | - | - |
| 2003 Series - Refunding | 41900 | - | - | - | - |
| 2005 Series - Rebate | 42600 | 6,415 | - | - | - |
| 911 - Rebate | 48800 | - | - | - | - |
| Total Rebate Accounts | | 6,454 | - | - | - |
| 2009 Series - Cost of Issuance | 10650 | - | - | - | - |
| 2011 Series - Cost of Issuance | 11320 | - | - | - | - |
| 2013 Series - Cost of Issuance | 11620 | - | - | - | - |
| 2015 Series - Cost of Issuance Fund | 40130 | - | - | - | - |
| Total Cost of Issuance | | - | - | - | - |
| COMBINED TOTAL | | \$ 1,690,897 | \$ 74,139,519 | \$ 78,118,581 | \$ 3,418 |

| Total Expenditures | Excess (Deficiency) of Revenues Over (Under) Expenditures | Other Financing Sources (Uses) | | | Net Change in Fund Balance | Beginning Fund Balances | Fund Balances June 30, 2016 |
|----------------------|---|--|---------------------|-----------------------|----------------------------|-------------------------|-----------------------------|
| | | Transfers (to) from Other State Agencies | Interfund Transfers | | | | |
| \$ - | \$ - | \$ - | \$ (141) | \$ (141) | \$ 141 | \$ - | |
| - | - | - | (141) | (141) | 141 | - | |
| 17,464,434 | (6,151,638) | 218 | 8,700,878 | 2,549,458 | 3,734,737 | 6,284,195 | |
| - | - | - | (118) | (118) | 118 | - | |
| - | 14 | - | (3,993) | (3,979) | 3,983 | 4 | |
| 25,879,183 | (2,492,933) | - | 879 | (2,492,054) | 19,048,017 | 16,555,963 | |
| 2,244,234 | (34,585) | 125,185 | (2,499,121) | (2,408,521) | 4,480,081 | 2,071,560 | |
| 15,323,831 | (2,434,703) | 938,722 | 879 | (1,495,102) | 8,073,379 | 6,578,277 | |
| - | - | - | - | - | 220,698 | 220,698 | |
| - | - | - | - | - | - | - | |
| 17,210,317 | 8,815,808 | - | (6,199,122) | 2,616,686 | 10,792,621 | 13,409,307 | |
| 78,121,999 | (2,298,037) | 1,064,125 | - | (1,233,912) | 46,353,916 | 45,120,004 | |
| - | 39 | - | - | 39 | 4,813 | 4,852 | |
| - | - | - | - | - | 56 | 56 | |
| - | - | - | - | - | 9 | 9 | |
| - | 6,415 | - | - | 6,415 | 643,225 | 649,640 | |
| - | - | - | - | - | - | - | |
| - | 6,454 | - | - | 6,454 | 648,103 | 654,557 | |
| - | - | - | - | - | - | - | |
| - | - | - | - | - | (650) | (650) | |
| - | - | - | - | - | 13,826 | 13,826 | |
| - | - | - | - | - | 107,146 | 107,146 | |
| - | - | - | - | - | 120,322 | 120,322 | |
| <u>\$ 78,121,999</u> | <u>\$ (2,291,583)</u> | <u>\$ 1,064,125</u> | <u>\$ -</u> | <u>\$ (1,227,458)</u> | <u>\$ 47,122,341</u> | <u>\$ 45,894,883</u> | |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 4 - COMBINING BALANCE SHEET - SEVERANCE TAX BONDS -
SEVERANCE TAX BOND DEBT SERVICE FUNDS
JUNE 30, 2016**

| | SHARE Fund | Assets | | Total Assets |
|---------------------------------------|---------------|--------------------------|-------------------------------|-----------------------|
| | | Repurchase Agreements | Due From Other Agencies | |
| 2009-A Series - Debt Service | 10750 | \$ 17,742,916 | \$ - | \$ 17,742,916 |
| 2010-A Series - Debt Service | 10950 | 15,138,901 | - | 15,138,901 |
| 2010-B Series - Debt Service | 10960 | 11,208,912 | - | 11,208,912 |
| 2010-C Series - Debt Service | 11190 | 215 | - | 215 |
| 2010-D Series - Debt Service | 11280 | 31,390,484 | - | 31,390,484 |
| Series 2013A | 11770 | 16,930,197 | - | 16,930,197 |
| 2013 S-C Maturity | 11980 | - | - | - |
| Series 2014A | 12160 | 12,160,092 | - | 12,160,092 |
| Series 2011A-1 | 30830 | 5,771,856 | - | 5,771,856 |
| Series 2011A-2 Refunding | 30820 | 16,268,880 | - | 16,268,880 |
| 2012-A Series - Debt Service | 11480 | 7,110,618 | - | 7,110,618 |
| 2004-A Series Debt Service | 49200 | - | - | - |
| 2004-B Series Debt Service | 18300 | 93 | - | 93 |
| 2005-B1 Series Debt Service | 38800 | 2,032 | - | 2,032 |
| Severance Tax Bonding | 41000 | 15,266,197 | 56,778,241 | 72,044,438 |
| 2005-A Series Debt Service | 41200 | 107,962 | - | 107,962 |
| Series 2016A & Refunding Series 2016B | 43230 | 29,159 | - | 29,159 |
| 2003-B Series-Debt Service | 48400 | 220 | - | 220 |
| Series 2015B | 50170 | 5,195,227 | - | 5,195,227 |
| Series 2015A | 50180 | 6,329,739 | - | 6,329,739 |
| Series 2016C | 50450 | 9,624 | - | 9,624 |
| 2007-A Debt Service | 53700 | 60,087 | - | 60,087 |
| 2005-B2 Series Debt Service | 57100 | 1,496 | - | 1,496 |
| 2008A-1 Series - Debt Service | 72010 | 157,134 | - | 157,134 |
| 2008A-2 Series - Debt Service | 72070 | 1,508 | - | 1,508 |
| 2006-A Series Debt Service | 96300 | 2,505 | - | 2,505 |
| Total Debt Service | | 160,886,054 | 56,778,241 | 217,664,295 |
| 2004-B Series-Rebate | 41100 | 302 | - | 302 |
| 2003-B Supp-Rebate | 42000 | 12,934 | - | 12,934 |
| 2005-A Series-Rebate | 48300 | 45,941 | - | 45,941 |
| 2005-B1 Series-Rebate | 57000 | 11,320 | - | 11,320 |
| 2005-B2 Series-Rebate | 96000 | 6,643 | - | 6,643 |
| 2006-A Series-Rebate | 96400 | 39,569 | - | 39,569 |
| Total Rebate Accounts | | 116,709 | - | 116,709 |
| COMBINED TOTAL | | \$ 161,002,763 | \$ 56,778,241 | \$ 217,781,004 |

| Liabilities | | Fund Equity | | |
|-------------------|-------------------|-----------------------------|-----------------------|---------------------------------|
| Accounts Payable | Total Liabilities | Restricted for Debt Service | Total Fund Equity | Total Liabilities & Fund Equity |
| \$ - | \$ - | \$ 17,742,916 | \$ 17,742,916 | \$ 17,742,916 |
| - | - | 15,138,901 | 15,138,901 | 15,138,901 |
| - | - | 11,208,912 | 11,208,912 | 11,208,912 |
| - | - | 215 | 215 | 215 |
| - | - | 31,390,484 | 31,390,484 | 31,390,484 |
| - | - | 16,930,197 | 16,930,197 | 16,930,197 |
| - | - | - | - | - |
| - | - | 12,160,092 | 12,160,092 | 12,160,092 |
| - | - | 5,771,856 | 5,771,856 | 5,771,856 |
| - | - | 16,268,880 | 16,268,880 | 16,268,880 |
| - | - | 7,110,618 | 7,110,618 | 7,110,618 |
| - | - | - | - | - |
| - | - | 92 | 92 | 92 |
| - | - | 2,032 | 2,032 | 2,032 |
| 117,985 | 117,985 | 71,926,450 | 71,926,450 | 72,044,435 |
| - | - | 107,962 | 107,962 | 107,962 |
| - | - | 29,159 | 29,159 | 29,159 |
| - | - | 220 | 220 | 220 |
| - | - | 5,195,227 | 5,195,227 | 5,195,227 |
| - | - | 6,329,739 | 6,329,739 | 6,329,739 |
| - | - | 9,624 | 9,624 | 9,624 |
| - | - | 60,087 | 60,087 | 60,087 |
| - | - | 1,496 | 1,496 | 1,496 |
| - | - | 157,134 | 157,134 | 157,134 |
| 1,215 | 1,215 | 295 | 295 | 1,511 |
| - | - | 2,507 | 2,507 | 2,506 |
| 119,200 | 119,200 | 217,545,095 | 217,545,095 | 217,664,295 |
| - | - | 302 | 302 | 302 |
| - | - | 12,934 | 12,934 | 12,934 |
| - | - | 45,941 | 45,941 | 45,941 |
| - | - | 11,320 | 11,320 | 11,320 |
| - | - | 6,643 | 6,643 | 6,643 |
| - | - | 39,569 | 39,569 | 39,569 |
| - | - | 116,709 | 116,709 | 116,709 |
| <u>\$ 119,200</u> | <u>\$ 119,200</u> | <u>\$ 217,661,804</u> | <u>\$ 217,661,804</u> | <u>\$ 217,781,004</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 5 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - SEVERANCE TAX BOND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2016**

| | Revenues | | | Expenditures | |
|---------------------------------------|---------------|---------------------|-----------------------|--|-------------------|
| | SHARE Fund | Interest Income | Severance Taxes | Principal and Interest on Long-Term Debt | Other Charges |
| 2009-A Series - Debt Service | 10750 | \$ 45,284 | \$ - | \$ 1,728,375 | \$ - |
| 2010-A Series - Debt Service | 10950 | 14,459 | - | 1,837,500 | - |
| 2010-B Series - Debt Service | 10960 | 592 | - | 1,263,651 | - |
| 2010-C Series - Debt Service | 11190 | 2 | - | - | - |
| 2010-D Series - Debt Service | 11280 | 1,019 | - | 1,124,750 | - |
| Series 2013A | 11770 | 458,846 | - | 2,865,375 | - |
| 2013 S-C Maturity | 11980 | - | - | - | - |
| Series 2014A | 12160 | 794,229 | - | 3,494,250 | - |
| 2011A-1 Series | 30830 | 91,307 | - | 549,393 | - |
| 2011A-2 Series Refunding | 30820 | 680 | - | 1,188,499 | - |
| 2012A - Series | 11480 | 68,992 | - | 1,205,625 | - |
| 2004-A Series Debt Service | 49200 | - | - | - | - |
| 2004-B Series Debt Service | 18300 | - | - | - | - |
| 2005-B1 Series Debt Service | 38800 | 16 | - | - | - |
| Severance Tax Bonding | 41000 | 5,677,111 | 254,966,459 | 135,905,692 | 842,497 |
| 2005-A Series -Debt Service | 41200 | 794 | - | - | - |
| Series 2016A & Refunding Series 2016B | 43230 | 29,159 | - | - | - |
| 2003-B Series-Debt Service | 48400 | 2 | - | - | - |
| Series 2015B | 50170 | 533,149 | - | 1,346,465 | - |
| Series 2015A | 50180 | 1,009,398 | - | 2,494,181 | - |
| Series 2016C | 50450 | 9,624 | - | - | - |
| 2007-A Series-Debt Service | 53700 | 526 | - | - | - |
| 2005-B2 Series Debt Service | 57100 | 11 | - | - | - |
| 2008A-1 Debt Service | 72010 | 40,339 | - | - | - |
| 2008A-2 Debt Service | 72070 | 11 | - | - | - |
| 2006-A Series Debt Service | 96300 | 20 | - | - | - |
| Total Debt Service | | 8,775,570 | 254,966,459 | 155,003,756 | 842,497 |
| 2004-B Series-Rebate | 41100 | 8 | - | - | - |
| 2003-B Supp-Rebate | 42000 | 95 | - | - | - |
| 2005-A Series-Rebate | 48300 | 338 | - | - | - |
| 2005-B1 Series-Rebate | 57000 | 83 | - | - | - |
| 2005-B2 Series-Rebate | 96000 | 49 | - | - | - |
| 2006-A Series-Rebate | 96400 | 291 | - | - | - |
| Total Rebate Accounts | | 864 | - | - | - |
| COMBINED TOTAL | | \$ 8,776,434 | \$ 254,966,459 | \$ 155,003,756 | \$ 842,497 |

| Total Expenditures | Excess (Deficiency) of Revenues Over (Under) Expenditures | Other Financing Sources (Uses) | |
|-----------------------|---|--|---------------------|
| | | Transfers (to) from Other State Agencies | Interfund Transfers |
| \$ 1,728,375 | \$ (1,683,091) | \$ - | \$ 19,421,387 |
| 1,837,500 | (1,823,041) | - | 16,958,798 |
| 1,263,651 | (1,263,059) | - | 12,471,720 |
| - | 2 | - | - |
| 1,124,750 | (1,123,731) | - | 32,513,573 |
| 2,865,375 | (2,406,529) | - | 19,282,440 |
| - | - | - | - |
| 3,494,250 | (2,700,021) | - | 14,777,379 |
| 549,393 | (458,086) | - | 6,220,474 |
| 1,188,499 | (1,187,819) | - | 17,456,366 |
| 1,205,625 | (1,136,633) | - | 8,239,068 |
| - | - | - | - |
| - | - | - | - |
| - | 16 | - | - |
| 136,748,189 | 123,895,381 | (2,783,331) | (161,164,270) |
| - | 794 | - | - |
| - | 29,159 | - | - |
| - | 2 | - | - |
| 1,346,465 | (813,316) | - | 6,008,543 |
| 2,494,181 | (1,484,783) | - | 7,814,522 |
| - | 9,624 | - | - |
| - | 526 | - | - |
| - | 11 | - | - |
| - | 40,339 | - | - |
| - | 11 | - | - |
| - | 20 | - | - |
| <u>155,846,253</u> | <u>107,895,776</u> | <u>(2,783,331)</u> | <u>-</u> |
| - | 8 | - | - |
| - | 95 | - | - |
| - | 338 | - | - |
| - | 83 | - | - |
| - | 49 | - | - |
| - | 291 | - | - |
| <u>-</u> | <u>864</u> | <u>-</u> | <u>-</u> |
| <u>\$ 155,846,253</u> | <u>\$ 107,896,640</u> | <u>\$ (2,783,331)</u> | <u>\$ -</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 5 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - SEVERANCE TAX BOND DEBT SERVICE FUNDS
(CONTINUED)
YEAR ENDED JUNE 30, 2016**

| | SHARE Fund | Total Other Financing Sources (Uses) | Net Change in Fund Balance | Beginning Fund Balance | Fund Balances June 30, 2016 |
|---------------------------------------|---------------|---|----------------------------------|---------------------------|-----------------------------------|
| 2009-A Series - Debt Service | 10750 | \$ 19,421,387 | \$ 17,738,296 | \$ 4,620 | \$ 17,742,916 |
| 2010-A Series - Debt Service | 10950 | 16,958,798 | 15,135,757 | 3,144 | 15,138,901 |
| 2010-B Series - Debt Service | 10960 | 12,471,720 | 11,208,661 | 251 | 11,208,912 |
| 2010-C Series - Debt Service | 11190 | - | 2 | 213 | 215 |
| 2010-D Series - Debt Service | 11280 | 32,513,573 | 31,389,842 | 642 | 31,390,484 |
| Series 2013A | 11770 | 19,282,440 | 16,875,911 | 54,286 | 16,930,197 |
| 2013 S-C Maturity | 11980 | - | - | - | - |
| Series 2014A | 12160 | 14,777,379 | 12,077,358 | 82,734 | 12,160,092 |
| 2011A-1 Series | 30830 | 6,220,474 | 5,762,388 | 9,468 | 5,771,856 |
| 2011A-2 Series Refunding | 30820 | 17,456,366 | 16,268,547 | 333 | 16,268,880 |
| 2012A - Series | 11480 | 8,239,068 | 7,102,435 | 8,183 | 7,110,618 |
| 2004-A Series Debt Service | 49200 | - | - | - | - |
| 2004-B Series Debt Service | 18300 | - | - | 92 | 92 |
| 2005-B1 Series Debt Service | 38800 | - | 16 | 2,016 | 2,032 |
| Severance Tax Bonding | 41000 | (163,947,601) | (40,052,220) | 111,978,670 | 71,926,450 |
| 2005-A Series -Debt Service | 41200 | - | 794 | 107,168 | 107,962 |
| Series 2016A & Refunding Series 2016B | 43230 | - | 29,159 | - | 29,159 |
| 2003-B Series-Debt Service | 48400 | - | 2 | 218 | 220 |
| Series 2015B | 50170 | 6,008,543 | 5,195,227 | - | 5,195,227 |
| Series 2015A | 50180 | 7,814,522 | 6,329,739 | - | 6,329,739 |
| Series 2016C | 50450 | - | 9,624 | - | 9,624 |
| 2007-A Series-Debt Service | 53700 | - | 526 | 59,561 | 60,087 |
| 2005-B2 Series Debt Service | 57100 | - | 11 | 1,485 | 1,496 |
| 2008A-1 Debt Service | 72010 | - | 40,339 | 116,795 | 157,134 |
| 2008A-2 Debt Service | 72070 | - | 11 | 284 | 295 |
| 2006-A Series Debt Service | 96300 | - | 20 | 2,487 | 2,507 |
| Total Debt Service | | (2,783,331) | 105,112,445 | 112,432,650 | 217,545,095 |
| 2004-B Series-Rebate | 41100 | - | 8 | 294 | 302 |
| 2003-B Supp-Rebate | 42000 | - | 95 | 12,839 | 12,934 |
| 2005-A Series-Rebate | 48300 | - | 338 | 45,603 | 45,941 |
| 2005-B1 Series-Rebate | 57000 | - | 83 | 11,237 | 11,320 |
| 2005-B2 Series-Rebate | 96000 | - | 49 | 6,594 | 6,643 |
| 2006-A Series-Rebate | 96400 | - | 291 | 39,278 | 39,569 |
| Total Rebate Accts. | | - | 864 | 115,845 | 116,709 |
| COMBINED TOTAL | | \$ (2,783,331) | \$ 105,113,309 | \$ 112,548,495 | \$ 217,661,804 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS -
LONG-TERM DEBT ROLLFORWARD
YEAR ENDED JUNE 30, 2016**

| Issue | SHARE Fund | Date of Issue | Issue Amount | Interest Rate | Unpaid Balance June 30, 2015 |
|--|---------------|------------------|-------------------------|------------------|------------------------------------|
| General Obligation and Revenue Bonds: | | | | | |
| Series 2007 Debt Service | 28800 | 3/1/07 | \$ 134,870,000 | 5.00% | \$ 32,475,000 |
| Series 2009 Debt Service | 10630 | 5/28/09 | 196,330,000 | 5.00% | 91,770,000 |
| Series 2011 Debt Service | 11630 | 5/26/11 | 18,645,000 | 2.00-4.00% | 11,805,000 |
| Series 2013 Debt Service | 11680 | 4/23/13 | 137,220,000 | 2.00-2.40% | 111,585,000 |
| Series 2015 Debt Service | 35170 | 2/17/15 | 141,635,000 | 5.00% | 141,635,000 |
| Total General Obligation Bonds | | | 628,700,000 | | 389,270,000 |
| Severance Tax Bonds: | | | | | |
| Series 2009A Refunding | 10750 | 7/30/09 | 218,450,000 | 2.00-5.00% | 69,135,000 |
| Series 2010A | 10950 | 3/24/10 | 132,265,000 | 3.00-5.00% | 73,500,000 |
| Series 2010B Supplemental | 10960 | 3/24/10 | 100,000,000 | 4.00-5.00% | 52,795,000 |
| Series 2010D Refunding | 11280 | 12/8/10 | 140,520,000 | 3.00-5.00% | 44,990,000 |
| Series 2011A-1 | 30830 | 12/6/11 | 47,790,000 | 3.00-5.00% | 33,250,000 |
| Series 2011A-2 Refunding | 30820 | 12/6/11 | 75,715,000 | 4.00-5.00% | 47,540,000 |
| Series 2012A | 11480 | 6/21/12 | 57,990,000 | 3.00-5.00% | 48,225,000 |
| Series 2013A | 11770 | 6/21/12 | 157,560,000 | 2.00-5.00% | 132,210,000 |
| Series 2014A | 12160 | 6/21/12 | 143,770,000 | 3.00-5.00% | 139,770,000 |
| Series 2015A | 50180 | 8/12/15 | 129,195,000 | 0.05 | - |
| Series 2015B | 50170 | 8/12/15 | 69,745,000 | 0.05 | - |
| Series 2016A & Refunding Series 2016B | 43230 | 6/23/16 | 260,145,000 | 3.00-5.00% | - |
| Series 2016C | 50450 | 6/23/16 | 41,925,000 | 0.02 | - |
| Total Severance Tax Bonds | | | 1,575,070,000 | | 641,415,000 |
| TOTAL GENERAL LONG-TERM DEBT | | | \$ 2,203,770,000 | | \$ 1,030,685,000 |
| <u>Premium/Discount</u> | | | | | |
| Current Year Bond Premiums: | | | | | |
| STB Series 2015A | | | \$ 23,120,534 | | |
| STB Series 2015B | | | 11,427,758 | | |
| STB Series 2016A & Refunding Series 2016B | | | 46,694,038 | | |
| STB Series 2016C | | | 996,190 | | |
| TOTAL CURRENT YEAR BOND PREMIUMS | | | \$ 82,238,520 | | |

| New Bonds | Reductions | | | Unpaid Balance June 30, 2016 | Interest to Maturity | Debt Service Requirements |
|----------------|------------------|-----------------------|---------------------|------------------------------------|-------------------------|---------------------------------|
| | Refunded Debt | Principal Payments | Total Reductions | | | |
| \$ - | \$ - | \$ 15,840,000 | \$ 15,840,000 | \$ 16,635,000 | \$ 831,750 | \$ 17,466,750 |
| - | - | 21,290,000 | 21,290,000 | 70,480,000 | 7,162,750 | 77,642,750 |
| - | - | 1,790,000 | 1,790,000 | 10,015,000 | 1,212,950 | 11,227,950 |
| - | - | 12,995,000 | 12,995,000 | 98,590,000 | 8,684,045 | 107,274,045 |
| - | - | 10,600,000 | 10,600,000 | 131,035,000 | 34,882,750 | 165,917,750 |
| - | - | 62,515,000 | 62,515,000 | 326,755,000 | 52,774,245 | 379,529,245 |
| - | - | - | - | 69,135,000 | 7,129,375 | 76,264,375 |
| - | - | - | - | 73,500,000 | 9,546,250 | 83,046,250 |
| - | - | - | - | 52,795,000 | 6,255,850 | 59,050,850 |
| - | - | - | - | 44,990,000 | 1,861,000 | 46,851,000 |
| - | 8,290,000 | - | 8,290,000 | 24,960,000 | 2,136,744 | 27,096,744 |
| - | - | - | - | 47,540,000 | 3,642,750 | 51,182,750 |
| - | - | - | - | 48,225,000 | 8,920,375 | 57,145,375 |
| - | 87,975,000 | - | 87,975,000 | 44,235,000 | 5,149,125 | 49,384,125 |
| - | 91,115,000 | - | 91,115,000 | 48,655,000 | 7,714,250 | 56,369,250 |
| 129,195,000 | - | - | - | 129,195,000 | 38,745,625 | 167,940,625 |
| 69,745,000 | - | - | - | 69,745,000 | 19,463,125 | 89,208,125 |
| 260,145,000 | - | - | - | 260,145,000 | 71,430,690 | 331,575,690 |
| 41,925,000 | - | - | - | 41,925,000 | 2,442,533 | 44,367,533 |
| 501,010,000 | 187,380,000 | - | 187,380,000 | 955,045,000 | 184,437,692 | 1,139,482,692 |
| \$ 501,010,000 | \$ 187,380,000 | \$ 62,515,000 | \$ 249,895,000 | \$ 1,281,800,000 | \$ 237,211,937 | \$ 1,519,011,937 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED)
SCHEDULE OF DEBT SERVICE MATURITIES
YEAR ENDED JUNE 30, 2016**

| Issue | SHARE Fund | 2017 | 2018 |
|--|---------------|-----------------------|-----------------------|
| General Obligation Bonds: | | | |
| Series 2007 | 28800 | \$ 17,466,750 | \$ - |
| Series 2009 Debt Service | 10630 | 25,879,000 | 25,881,250 |
| Series 2011 | 11630 | 2,246,950 | 2,246,000 |
| Series 2013 | 11670 | 15,323,248 | 15,323,147 |
| Series 2015 | 35170 | 18,436,750 | 18,437,500 |
| Total General Obligation Bonds | | 79,352,698 | 61,887,897 |
| Severance Tax Bonds: | | | |
| Series 2009A Refunding | 10750 | 19,066,500 | 19,065,500 |
| Series 2010A | 10950 | 16,642,500 | 16,625,875 |
| Series 2010B Supplemental | 10960 | 12,223,675 | 11,989,675 |
| Series 2010D Refunding | 11280 | 31,757,875 | 15,093,125 |
| Series 2011A-1 Refunding | 30830 | 6,079,744 | 5,968,825 |
| Series 2011A-2 Refunding | 30820 | 17,080,000 | 17,062,125 |
| Series 2012A | 11480 | 8,163,750 | 8,166,125 |
| Series 2013A | 11770 | 17,650,500 | 15,876,875 |
| Series 2014A | 12160 | 13,095,625 | 13,108,000 |
| Series 2015A | 50180 | 9,384,750 | 11,184,750 |
| Series 2015B | 50170 | 6,802,250 | 8,484,750 |
| Series 2016A & 2016B Refunding | 43230 | 5,845,390 | 11,193,300 |
| Series 2016C | 50450 | 437,883 | 5,590,500 |
| Total Severance Tax Bonds | | 164,230,442 | 159,409,425 |
| TOTAL DEBT SERVICE REQUIREMENTS | | \$ 243,583,140 | \$ 221,297,322 |

| <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>Thereafter</u> | <u>Total</u> |
|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 17,466,750 |
| 25,882,500 | - | - | - | 77,642,750 |
| 2,244,200 | 2,244,400 | 2,246,400 | - | 11,227,950 |
| 15,327,747 | 15,326,848 | 15,325,447 | 30,647,608 | 107,274,045 |
| 18,433,500 | 18,433,500 | 18,435,750 | 73,740,750 | 165,917,750 |
| <u>61,887,947</u> | <u>36,004,748</u> | <u>36,007,597</u> | <u>104,388,358</u> | <u>379,529,245</u> |
| 19,067,375 | 19,065,000 | - | - | 76,264,375 |
| 16,610,125 | 16,593,500 | 16,574,250 | - | 83,046,250 |
| 11,781,175 | 11,586,425 | 11,469,900 | - | 59,050,850 |
| - | - | - | - | 46,851,000 |
| 3,955,600 | 3,705,325 | 3,697,725 | 3,689,525 | 27,096,744 |
| 17,040,625 | - | - | - | 51,182,750 |
| 8,163,000 | 8,163,625 | 8,162,125 | 16,326,750 | 57,145,375 |
| 15,856,750 | - | - | - | 49,384,125 |
| 14,093,625 | 16,072,000 | - | - | 56,369,250 |
| 16,765,250 | 18,648,875 | 18,657,625 | 93,299,375 | 167,940,625 |
| 9,360,500 | 9,826,750 | 9,121,500 | 45,612,375 | 89,208,125 |
| 11,193,300 | 23,173,800 | 46,023,500 | 234,146,400 | 331,575,690 |
| 10,444,500 | 14,604,500 | 11,578,200 | 1,711,950 | 44,367,533 |
| <u>154,331,825</u> | <u>141,439,800</u> | <u>125,284,825</u> | <u>394,786,375</u> | <u>1,139,482,692</u> |
| <u>\$ 216,219,772</u> | <u>\$ 177,444,548</u> | <u>\$ 161,292,422</u> | <u>\$ 499,174,733</u> | <u>\$ 1,519,011,937</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED) -
 ADDITIONAL INFORMATION
 JUNE 30, 2016**

ADDITIONAL INFORMATION RELATED TO LONG-TERM DEBT OBLIGATIONS

The following information is presented as additional information of the long-term debt obligations of the State of New Mexico as detailed in Schedule 6 of this report.

GENERAL OBLIGATION BONDS

General Obligation Bonds are issued to provide funds for capital expenditures for construction, acquisition, or improvement of the projects specified in the Acts authorized by the Legislature of the State of New Mexico. Funds are provided through the collection of property tax levies levied by other State agencies.

The annual requirements to amortize the combined General Obligation Bond issues outstanding as of June 30, 2016, including interest payments, are as follows (see details on Schedule 6):

| Years Ending June 30: | Amount |
|-----------------------|----------------|
| 2017 | \$ 79,352,698 |
| 2018 | 61,887,897 |
| 2019 | 61,887,947 |
| 2020 | 36,004,748 |
| 2021 | 36,007,597 |
| Thereafter | 104,388,358 |
| Total | \$ 379,529,245 |

SEVERANCE TAX BONDS:

Severance tax bonds are for State agencies, local governments and public and higher education, including a broad range of State and local capital needs. Funds are provided through tax receipts levied upon natural resource products, severed and saved from the lands of the State of New Mexico.

The annual requirements to amortize the combined Severance Tax Bond issues outstanding as of June 30, 2016, including interest payments, are as follows (see details on Schedule 6):

| Years Ending June 30: | Amount |
|-----------------------|------------------|
| 2017 | \$ 164,230,442 |
| 2018 | 159,409,425 |
| 2019 | 154,331,825 |
| 2020 | 141,439,800 |
| 2021 | 125,284,825 |
| Thereafter | 394,786,375 |
| Total | \$ 1,139,482,692 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|--|------------------|------------------|-------------------|-------------------|---------------------------|
| GENERAL FUND INVESTMENT POOL: | | | | | |
| Repurchase Agreements | Various | Various | \$ 375,311,935 | \$ 375,311,935 | \$ - |
| Cash in Banks | Various | Various | 338,585,062 | 338,585,062 | - |
| Certificates of Deposit | Various | Various | 52,750,066 | 52,750,066 | - |
| Cash Miscellaneous | Various | Various | 6,870,000 | 6,870,000 | - |
| Fiscal Agent Bank Account | 0.000% | N/A | 42,002,853 | 42,002,853 | - |
| Mutual Funds (LGIP Participant) | Various | Various | 144,028 | 144,028 | - |
| Municipal Bonds: | | | | | |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 4.000% | 7/1/2016 | 500,000 | 500,050 | 50 |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 5.000% | 7/1/2016 | 1,000,000 | 1,000,129 | 129 |
| ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG | 3.000% | 7/1/2016 | 200,000 | 200,013 | 13 |
| ALBUQUERQUE N MEX MUN SCH DIST NO 012 27/DEC/2007 | 4.000% | 8/1/2016 | 200,575 | 200,618 | 43 |
| BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N | 2.000% | 8/1/2016 | 500,523 | 500,685 | 162 |
| CHOCTAW CNTY MISS HOSP REV TAXABLE-CHOCTAW COUNTY | 7.500% | 8/1/2028 | 256,456 | 256,533 | 77 |
| ENERGY NORTHWEST WASH ELEC REV FORMERLY KNOWN AS | 5.000% | 7/1/2023 | 2,370,000 | 2,370,284 | 284 |
| GADSDEN INDEPENDENT SCHOOL DISTRICT NO 16 BOND | 0.600% | 8/15/2016 | 2,000,000 | 2,000,000 | - |
| GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1 | 2.000% | 10/1/2016 | 170,574 | 170,544 | (30) |
| KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006 | 5.800% | 12/1/2019 | 178,659 | 179,004 | 345 |
| KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006 | 5.875% | 12/1/2036 | 347,214 | 347,738 | 524 |
| LAS CRUCES N MEX HOLD HARMLESS GROSS RCPTS TAX | 4.000% | 6/1/2018 | 157,060 | 158,415 | 1,355 |
| LAS CRUCES N MEX JT UTIL REV RFDG & IMPT | 2.000% | 6/1/2017 | 1,092,312 | 1,094,386 | 2,074 |
| LAS CRUCES SCHOOL DISTRICT NO 2 BOND 08/MAR/2016 | 4.000% | 8/1/2016 | 501,446 | 501,545 | 99 |
| NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B | 4.000% | 9/1/2016 | 477,749 | 477,860 | 111 |
| NEW MEXICO ST SEVERANCE TAX RFDG-SER D 08/DEC/2010 | 5.000% | 7/1/2016 | 100,000 | 100,013 | 13 |
| NEW MEXICO ST SEVERANCE TAX SER A 21/JUN/2012 | 5.000% | 7/1/2016 | 180,000 | 180,023 | 23 |
| RIO RANCHO N MEX RFDG & IMPT 21/JUN/2016 | 5.000% | 8/1/2016 | 838,043 | 838,282 | 239 |
| RUIDOSO N MEX WASTERWATER REV RFDG 12/JUL/2013 | 2.000% | 7/1/2016 | 200,000 | 200,008 | 8 |
| SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO | 1.000% | 8/1/2017 | 300,806 | 300,786 | (20) |
| SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO | 1.000% | 8/1/2018 | 224,998 | 225,819 | 821 |
| SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2016 2% | 2.000% | 8/1/2016 | 370,470 | 370,455 | (15) |
| SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2016 | 2.000% | 8/1/2016 | 225,246 | 225,284 | 38 |
| SILVER CITY N MEX JT UTIL SYS REV RFDG-SER B | 2.000% | 12/1/2017 | 258,579 | 259,511 | 932 |
| STATE OF NEW MEXICO - SANTA FE PUBLIC | 0.750% | 8/1/2016 | 2,000,000 | 2,000,000 | - |
| TEXAS A & M UNIV SYS BRD REGTS PERM UNIV FD RFDG | 5.000% | 7/1/2036 | 1,500,000 | 1,500,195 | 195 |
| TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006 | 2.000% | 8/1/2016 | 125,106 | 125,144 | 38 |
| Total Municipal Bonds | | | <u>16,275,816</u> | <u>16,283,324</u> | <u>7,508</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|--|------------------|------------------|--------------------|--------------------|---------------------------|
| US Government Securities: | | | | | |
| US Treasury Notes: | | | | | |
| UNITED STATES OF AMERICA NOTES FIXED .625% | 0.625% | 5/31/2017 | \$ 19,930,238 | \$ 20,018,000 | \$ 87,762 |
| UNITED STATES OF AMERICA NOTES FIXED .625% | 0.625% | 11/30/2017 | 19,873,830 | 20,016,400 | 142,570 |
| UNITED STATES OF AMERICA NOTES FIXED .625% | 0.625% | 4/30/2018 | 24,745,922 | 25,016,500 | 270,578 |
| UNITED STATES OF AMERICA NOTES FIXED .75% | 0.750% | 6/30/2017 | 19,944,884 | 20,046,200 | 101,316 |
| UNITED STATES OF AMERICA NOTES FIXED .875% | 0.875% | 7/31/2019 | 15,696,390 | 16,065,600 | 369,210 |
| UNITED STATES OF AMERICA NOTES FIXED .875% | 0.875% | 1/31/2018 | 4,966,105 | 5,023,250 | 57,145 |
| UNITED STATES OF AMERICA NOTES FIXED .875% | 0.875% | 7/15/2017 | 8,991,591 | 9,032,310 | 40,719 |
| UNITED STATES OF AMERICA NOTES FIXED 1% | 1.000% | 9/15/2017 | 9,993,080 | 10,052,700 | 59,620 |
| UNITED STATES OF AMERICA NOTES FIXED 1% | 1.000% | 8/31/2016 | 2,000,233 | 2,002,320 | 2,087 |
| UNITED STATES OF AMERICA NOTES FIXED 1% | 1.000% | 5/31/2018 | 24,892,436 | 25,193,250 | 300,814 |
| UNITED STATES OF AMERICA NOTES FIXED 1.125% | 1.125% | 3/31/2020 | 33,428,099 | 34,092,900 | 664,801 |
| UNITED STATES OF AMERICA NOTES FIXED 1.25% | 1.250% | 1/31/2019 | 19,991,423 | 20,295,400 | 303,977 |
| UNITED STATES OF AMERICA NOTES FIXED 1.375% | 1.375% | 4/30/2020 | 13,436,691 | 13,754,205 | 317,514 |
| UNITED STATES OF AMERICA NOTES FIXED 1.375% | 1.375% | 11/30/2018 | 19,986,410 | 20,346,200 | 359,790 |
| UNITED STATES OF AMERICA NOTES FIXED 1.5% | 1.500% | 10/31/2019 | 24,451,588 | 25,070,360 | 618,772 |
| UNITED STATES OF AMERICA NOTES FIXED 1.625% | 1.625% | 3/31/2019 | 34,888,316 | 35,877,800 | 989,484 |
| UNITED STATES OF AMERICA NOTES FIXED 1.75% | 1.750% | 12/31/2020 | 20,318,519 | 20,688,200 | 369,681 |
| UNITED STATES OF AMERICA NOTES FIXED 1.75% | 1.750% | 10/31/2020 | 41,491,079 | 42,378,830 | 887,751 |
| UNITED STATES OF AMERICA NOTES FIXED 2% | 2.000% | 11/30/2020 | 20,183,449 | 20,899,200 | 715,751 |
| UNITED STATES OF AMERICA NOTES FIXED 2.125% | 2.125% | 8/31/2020 | 25,663,792 | 26,220,750 | 556,958 |
| UNITED STATES OF AMERICA NOTES FIXED 2.375% | 2.375% | 7/31/2017 | 20,268,904 | 20,395,400 | 126,496 |
| UNITED STATES OF AMERICA NOTES FIXED 4.25% | 4.250% | 11/15/2017 | 20,859,779 | 21,006,200 | 146,421 |
| UNITED STATES OF AMERICA NOTES FIXED 4.75% | 4.750% | 8/15/2017 | 20,829,640 | 20,933,600 | 103,960 |
| Total US Treasury Notes | | | <u>466,832,398</u> | <u>474,425,575</u> | <u>7,593,177</u> |
| Federal Farm Credit Banks Cons Long: | | | | | |
| FEDERAL AGRICULTURAL MORTGAGE CORP BOND FIXED 2% | 2.000% | 7/27/2016 | 7,808,779 | 7,809,750 | 971 |
| FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM | 1.150% | 9/18/2017 | 4,498,895 | 4,528,530 | 29,635 |
| FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM | 1.900% | 9/18/2019 | 12,991,925 | 13,432,770 | 440,845 |
| FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM | 3.020% | 7/14/2017 | 9,181,630 | 9,221,310 | 39,680 |
| FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM | 1.100% | 1/26/2017 | 25,000,000 | 25,081,500 | 81,500 |
| FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM | 0.980% | 4/10/2017 | 8,997,571 | 9,027,720 | 30,149 |
| FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM | 0.930% | 5/1/2017 | 7,997,348 | 8,022,320 | 24,972 |
| FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM | 0.440% | 10/5/2016 | 14,999,338 | 15,000,300 | 962 |
| FEDERAL FARM CREDIT BANK BOND FIXED 1.8% | 1.800% | 11/12/2019 | 8,000,978 | 8,224,880 | 223,902 |
| Total Federal Farm Credit Banks | | | <u>99,476,464</u> | <u>100,349,080</u> | <u>872,616</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|---|------------------|------------------|--------------------|--------------------|---------------------------|
| Federal Home Loan Banks: | | | | | |
| FEDERAL HOME LOAN BANKS BOND FIXED 1.375% | 1.375% | 2/18/2021 | \$ 33,794,316 | \$ 34,400,860 | \$ 606,544 |
| FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED 1.1% | 1.100% | 12/27/2018 | 499,998 | 504,580 | 4,582 |
| Total Federal Home Loan Banks | | | <u>34,294,314</u> | <u>34,905,440</u> | <u>611,126</u> |
| Federal Home Loan Mortgage Corporation | | | | | |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .875% | 0.875% | 10/14/2016 | 30,001,155 | 30,038,100 | 36,945 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 0.875% | 0.875% | 3/7/2018 | 14,855,997 | 15,027,600 | 171,603 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1% | 1.000% | 3/8/2017 | 39,994,817 | 40,131,200 | 136,383 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1.125% | 1.125% | 4/15/2019 | 19,993,990 | 20,170,000 | 176,010 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 3.75% | 3.750% | 3/27/2019 | 21,059,497 | 21,593,600 | 534,103 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 5.5% | 5.500% | 8/23/2017 | 10,503,119 | 10,557,100 | 53,981 |
| Total Federal Home Loan Mortgage Corporation | | | <u>136,408,575</u> | <u>137,517,600</u> | <u>1,109,025</u> |
| Federal National Mortgage Association | | | | | |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION BOND ZERO | 0.000% | 10/9/2019 | 21,429,771 | 22,037,354 | 607,583 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.250% | 1/30/2017 | 40,045,125 | 40,180,800 | 135,675 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.125% | 4/27/2017 | 10,006,194 | 10,044,300 | 38,106 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 0.875% | 10/26/2017 | 24,905,622 | 25,087,000 | 181,378 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.875% | 9/18/2018 | 20,189,963 | 20,511,000 | 321,037 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.625% | 11/27/2018 | 14,957,034 | 15,319,350 | 362,316 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.875% | 2/19/2019 | 20,101,123 | 20,553,400 | 452,277 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.000% | 9/27/2017 | 14,978,302 | 15,068,700 | 90,398 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.750% | 11/26/2019 | 14,024,628 | 14,393,820 | 369,192 |
| Total Federal National Mortgage Corporation | | | <u>180,637,762</u> | <u>183,195,724</u> | <u>2,557,962</u> |
| Total US Government Securities | | | <u>917,649,513</u> | <u>930,393,419</u> | <u>12,743,906</u> |
| Total General Fund Investment Pool (State Funds Investment Pool) | | | 1,749,589,273 | 1,762,340,687 | 12,751,414 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|--|---------------|---------------|----------------|----------------|------------------------|
| LOCAL GOVERNMENT INVESTMENT POOL: | | | | | |
| Repurchase Agreements | Various | Various | \$ 235,000,000 | \$ 235,000,000 | \$ - |
| Bank Accounts: | | | | | |
| BANK OF THE WEST | Variable | 12/31/2049 | 12,427,818 | 12,427,818 | - |
| US BANK | Variable | 12/31/2049 | 3,184,071 | 3,184,071 | - |
| WELLS FARGO CHECKING | 0.15% | 12/31/2049 | 36,705,509 | 36,705,509 | - |
| WELLS FARGO SAVINGS | Variable | 12/31/2049 | 2,367,074 | 2,367,074 | - |
| Total Bank Accounts | | | 54,684,472 | 54,684,472 | - |
| Discounted Notes: | | | | | |
| FEDERAL FARM CREDIT DISCOUNT NOTES DISCOUNT NOTES | 0.000% | 8/30/2016 | 24,976,873 | 24,979,578 | 2,705 |
| FEDERAL FARM CREDIT DISCOUNT NOTES DISCOUNT NOTES | 0.000% | 11/22/2016 | 9,980,753 | 9,984,800 | 4,047 |
| FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN | 0.000% | 8/16/2016 | 19,988,832 | 19,993,620 | 4,788 |
| FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN | 0.000% | 9/16/2016 | 499,382 | 499,701 | 319 |
| FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN | 0.000% | 12/9/2016 | 19,955,246 | 19,964,220 | 8,974 |
| FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN | 0.000% | 12/12/2016 | 5,979,215 | 5,989,068 | 9,853 |
| FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN | 0.000% | 7/19/2016 | 4,998,493 | 4,999,600 | 1,107 |
| FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN | 0.000% | 7/29/2016 | 4,997,917 | 4,999,340 | 1,423 |
| FEDERAL HOME LOAN MORTGAGE CORP DISCOUNT NOTES | 0.000% | 8/5/2016 | 4,997,613 | 4,998,785 | 1,172 |
| FEDERAL HOME LOAN MORTGAGE CORP DISCOUNT NOTES | 0.000% | 9/23/2016 | 19,977,226 | 19,986,940 | 9,714 |
| Total Discounted Notes | | | 116,351,550 | 116,395,652 | 44,102 |
| US Government Securities: | | | | | |
| US Treasury Notes: | | | | | |
| UNITED STATES OF AMERICA NOTES FIXED 1% | 1.000% | 8/31/2016 | 15,013,604 | 15,017,400 | 3,796 |
| Total US Treasury Notes | | | 15,013,604 | 15,017,400 | 3,796 |
| Federal National Mortgage Association: | | | | | |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 4.875% | 12/15/2016 | 4,876,189 | 4,880,939 | 4,750 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 5.250% | 9/15/2016 | 4,290,963 | 4,291,905 | 942 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.250% | 9/28/2016 | 5,010,122 | 5,009,900 | (222) |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.375% | 11/15/2016 | 20,062,898 | 20,069,000 | 6,102 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 0.375% | 7/5/2016 | 3,224,959 | 3,225,000 | 41 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 0.750% | 4/20/2017 | 5,001,601 | 5,010,100 | 8,499 |
| Total Federal National Mortgage Association | | | 42,466,732 | 42,486,844 | 20,112 |
| Federal Farm Credit Bank: | | | | | |
| FEDERAL FARM CREDIT BANK BOND FIXED .69% | 0.690% | 9/23/2016 | 2,001,373 | 2,001,380 | 7 |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 03/JAN/2017 | 0.500% | 1/3/2017 | 7,001,117 | 7,000,000 | (1,117) |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 11/OCT/2016 | 0.467% | 10/11/2016 | 10,001,980 | 10,001,400 | (580) |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 14/SEP/2016 | 0.467% | 9/14/2016 | 1,374,928 | 1,375,206 | 278 |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 17/APR/2017 | 0.496% | 4/17/2017 | 7,404,434 | 7,405,370 | 936 |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 17/JAN/2017 | 0.496% | 1/17/2017 | 10,000,000 | 10,000,700 | 700 |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 20/APR/2017 | 0.480% | 4/20/2017 | 5,397,150 | 5,397,138 | (12) |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 20/JUL/2016 | 0.530% | 7/20/2016 | 24,001,362 | 24,002,400 | 1,038 |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 20/OCT/2016 | 0.530% | 10/20/2016 | 25,375,856 | 25,380,329 | 4,473 |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 27/APR/2017 | 0.420% | 4/27/2017 | 249,814 | 249,793 | (21) |
| FEDERAL FARM CREDIT BANK BOND VARIABLE 30/MAY/2017 | 0.650% | 5/30/2017 | 25,020,876 | 25,016,250 | (4,626) |
| Total Federal Farm Credit Bank | | | 117,828,890 | 117,829,966 | 1,076 |
| Federal Home Loan Bank: | | | | | |
| FEDERAL HOME LOAN BANKS BOND FIXED .5% 28/SEP/2016 | 0.500% | 9/28/2016 | 1,770,477 | 1,770,690 | 213 |
| FEDERAL HOME LOAN BANKS BOND FIXED .5% 29/AUG/2016 | 0.500% | 8/29/2016 | 9,999,784 | 10,002,900 | 3,116 |
| FEDERAL HOME LOAN BANKS BOND FIXED .58% | 0.580% | 11/14/2016 | 7,999,607 | 8,004,000 | 4,393 |
| FEDERAL HOME LOAN BANKS BOND FIXED .625% | 0.625% | 11/23/2016 | 20,012,553 | 20,010,800 | (1,753) |
| FEDERAL HOME LOAN BANKS BOND FIXED .75% | 0.750% | 11/18/2016 | 9,002,361 | 9,010,350 | 7,989 |
| FEDERAL HOME LOAN BANKS BOND FIXED 2% 09/SEP/2016 | 2.000% | 9/9/2016 | 19,246,302 | 19,253,161 | 6,859 |
| FEDERAL HOME LOAN BANKS BOND VARIABLE 01/AUG/2016 | 0.482% | 8/1/2016 | 1,499,989 | 1,500,105 | 116 |
| FEDERAL HOME LOAN BANKS BOND VARIABLE 02/AUG/2016 | 0.494% | 8/2/2016 | 10,000,000 | 10,000,800 | 800 |
| FEDERAL HOME LOAN BANKS BOND VARIABLE 16/NOV/2016 | 0.422% | 11/16/2016 | 29,999,558 | 29,998,800 | (758) |
| FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED .51% | 0.510% | 9/9/2016 | 5,400,971 | 5,401,404 | 433 |
| FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED .75% | 0.750% | 5/25/2017 | 5,000,000 | 5,002,800 | 2,800 |
| FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED .85% | 0.850% | 4/17/2017 | 1,310,000 | 1,310,000 | - |
| Total Home Loan Bank | | | 121,241,602 | 121,265,810 | 24,208 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|--|------------------|------------------|--------------------|--------------------|---------------------------|
| Federal Home Loan Mortgage Corp: | | | | | |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 0.650% | 9/29/2016 | \$ 3,001,522 | \$ 3,001,830 | \$ 308 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .625% | 0.625% | 11/1/2016 | 450,154 | 450,270 | 116 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .875% | 0.875% | 10/14/2016 | 15,014,308 | 15,019,050 | 4,742 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2% | 2.000% | 8/25/2016 | 11,831,178 | 11,832,624 | 1,446 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 5.5% | 5.500% | 7/18/2016 | 6,851,171 | 6,851,951 | 780 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES VARIABLE | 0.493% | 4/27/2017 | 9,996,736 | 9,999,200 | 2,464 |
| Total Federal Home Loan Mortgage Corp | | | <u>47,145,069</u> | <u>47,154,925</u> | <u>9,856</u> |
| Total Governmental Bonds | | | <u>343,695,897</u> | <u>343,754,945</u> | <u>59,048</u> |
| Total Local Government Investment Pool (Short-term Investment Pool) | | | 749,731,919 | 749,835,069 | 103,150 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|--|---------------|---------------|--------------------|--------------------|------------------------|
| BOND PROCEEDS INVESTMENT POOL #2 (TAXABLE): | | | | | |
| Repurchase Agreements | Various | Various | \$ 40,501,974 | \$ 40,501,974 | \$ - |
| Certificates of Deposit | Various | Various | 10,200,000 | 10,200,000 | - |
| Mutual Funds (LGIP Pool Participant) | Various | Various | 110,343,936 | 110,343,936 | - |
| Asset Backed Bonds: | | | | | |
| NCUA GUARANTEED NOTES OTHER SECURED LOANS FIXED | 2.350% | 6/12/2017 | 10,144,292 | 10,150,461 | 6,169 |
| Total Asset Backed Bonds | | | <u>10,144,292</u> | <u>10,150,461</u> | <u>6,169</u> |
| Municipal Bonds: | | | | | |
| ALBUQUERQUE METROPOLITAN ARROYO FLOOD CONTROL | 5.110% | 7/1/2018 | 1,855,431 | 1,855,581 | 150 |
| ALBUQUERQUE N MEX ARPT REV RFDG 11/MAR/2008 | 5.000% | 7/1/2016 | 1,000,000 | 1,000,130 | 130 |
| ALBUQUERQUE N MEX ARPT REV RFDG-SUB LIEN-SER A | 4.000% | 8/1/2016 | 310,344 | 306,855 | (3,489) |
| ALBUQUERQUE N MEX MUN SCH DIST NO 012 SER B | 4.500% | 8/1/2019 | 501,680 | 501,745 | 65 |
| BELEN N MEX 20/JUL/2016 01/AUG/2017 2% | 2.000% | 8/1/2017 | 278,322 | 278,570 | 248 |
| BELEN N MEX 20/JUL/2016 01/AUG/2018 2% | 2.000% | 8/1/2018 | 291,002 | 291,846 | 844 |
| BERNALILLO N MEX MUN SCH DIST NO 1 RFDG | 3.000% | 8/1/2016 | 160,347 | 160,331 | (16) |
| CLOVIS NEW MEX GROSS RCPTS TAX REV RFDG & IMPT | 2.000% | 6/1/2017 | 682,386 | 683,087 | 701 |
| COLFAX CNTY N MEX GROSS TAX RCPTS IMPT 24/FEB/2015 | 2.000% | 8/1/2016 | 225,300 | 225,279 | (21) |
| GALLUP MC KINLEY CNTY N MEX SCH DIST NO 001 | 2.000% | 8/1/2016 | 250,274 | 250,330 | 56 |
| JEMEZ VY N MEX PUB SCH DIST NO 031 25/NOV/2014 | 2.000% | 8/1/2017 | 273,633 | 274,101 | 468 |
| LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013 | 3.000% | 8/1/2016 | 475,948 | 476,055 | 107 |
| LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG 28/OCT/2015 | 2.000% | 7/15/2016 | 280,418 | 282,222 | 1,804 |
| LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG-SER A | 2.000% | 7/15/2018 | 195,116 | 195,115 | (1) |
| NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B | 4.000% | 9/1/2016 | 301,765 | 301,806 | 41 |
| NEW MEXICO ST SEVERANCE TAX TAXABLE-SER C | 2.000% | 7/1/2018 | 1,984,607 | 1,989,351 | 4,744 |
| PHILADELPHIA PA 27/JUL/2006 01/AUG/2024 5% | 5.000% | 8/1/2024 | 572,166 | 572,200 | 34 |
| RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG | 2.000% | 8/1/2016 | 600,688 | 600,816 | 128 |
| SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO | 3.000% | 8/1/2016 | 400,798 | 400,876 | 78 |
| SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SER A | 4.000% | 6/1/2017 | 267,767 | 268,154 | 387 |
| SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N | 3.000% | 8/1/2016 | 250,527 | 250,540 | 13 |
| Total Municipal Bonds | | | <u>11,158,519</u> | <u>11,164,990</u> | <u>6,471</u> |
| US Government Securities: | | | | | |
| US Treasury Notes: | | | | | |
| UNITED STATES OF AMERICA NOTES FIXED .5% | 0.500% | 7/31/2017 | 4,978,190 | 4,998,450 | 20,260 |
| UNITED STATES OF AMERICA NOTES FIXED .625% | 0.625% | 12/15/2016 | 19,996,364 | 20,020,400 | 24,036 |
| UNITED STATES OF AMERICA NOTES FIXED .625% | 0.625% | 5/31/2017 | 24,933,736 | 25,022,500 | 88,764 |
| UNITED STATES OF AMERICA NOTES FIXED .625% | 0.625% | 8/31/2017 | 10,955,481 | 11,009,900 | 54,419 |
| UNITED STATES OF AMERICA NOTES FIXED .625% | 0.625% | 7/15/2016 | 15,000,544 | 15,002,550 | 2,006 |
| UNITED STATES OF AMERICA NOTES FIXED .75% | 0.750% | 6/30/2017 | 4,987,302 | 5,011,550 | 24,248 |
| UNITED STATES OF AMERICA NOTES FIXED .75% | 0.750% | 2/28/2018 | 14,885,726 | 15,040,950 | 155,224 |
| UNITED STATES OF AMERICA NOTES FIXED .875% | 0.875% | 11/30/2016 | 20,010,225 | 20,041,000 | 30,775 |
| UNITED STATES OF AMERICA NOTES FIXED .875% | 0.875% | 1/31/2017 | 15,015,263 | 15,037,350 | 22,087 |
| UNITED STATES OF AMERICA NOTES FIXED .875% | 0.875% | 2/28/2017 | 5,002,874 | 5,012,900 | 10,026 |
| UNITED STATES OF AMERICA NOTES FIXED .875% | 0.875% | 1/31/2018 | 19,896,955 | 20,093,000 | 196,045 |
| UNITED STATES OF AMERICA NOTES FIXED 1% | 1.000% | 3/15/2018 | 7,499,247 | 7,551,600 | 52,353 |
| UNITED STATES OF AMERICA NOTES FIXED 1% | 1.000% | 9/30/2016 | 15,012,007 | 15,024,150 | 12,143 |
| UNITED STATES OF AMERICA NOTES FIXED 1% | 1.000% | 10/31/2016 | 15,018,268 | 15,032,850 | 14,582 |
| UNITED STATES OF AMERICA NOTES FIXED 1.25% | 1.250% | 10/31/2018 | 15,105,494 | 15,208,050 | 102,556 |
| UNITED STATES OF AMERICA NOTES FIXED 2.75% | 2.750% | 12/31/2017 | 20,481,473 | 20,643,000 | 161,527 |
| UNITED STATES OF AMERICA NOTES FIXED 3.125% | 3.125% | 10/31/2016 | 20,168,051 | 20,182,800 | 14,749 |
| Total US Treasury Notes | | | <u>248,947,200</u> | <u>249,933,000</u> | <u>985,800</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|---|---------------|---------------|-------------|--------------|------------------------|
| Federal Farm Credit Banks Cons Long: | | | | | |
| FEDERAL FARM CREDIT BANK BOND FIXED 1.16% | 1.160% | 6/18/2018 | \$ 502,405 | \$ 504,205 | \$ 1,800 |
| Total Federal Farm Credit Banks | | | 502,405 | 504,205 | 1,800 |
| Federal Home Loan Banks: | | | | | |
| FEDERAL HOME LOAN BANKS BOND FIXED .75% | 0.750% | 9/8/2017 | 499,943 | 500,600 | 657 |
| FEDERAL HOME LOAN BANKS BOND FIXED .82% | 0.820% | 7/6/2018 | 4,993,610 | 5,006,700 | 13,090 |
| FEDERAL HOME LOAN BANKS BOND FIXED .875% | 0.875% | 3/19/2018 | 12,511,184 | 12,544,000 | 32,816 |
| FEDERAL HOME LOAN BANKS BOND FIXED 1% 09/JUN/2017 | 1.000% | 6/9/2017 | 15,024,493 | 15,058,650 | 34,157 |
| FEDERAL HOME LOAN BANKS BOND FIXED 2% 14/SEP/2018 | 2.000% | 9/14/2018 | 25,554,699 | 25,708,750 | 154,051 |
| Total Federal Home Loan Banks | | | 58,583,929 | 58,818,700 | 234,771 |
| Federal Home Loan Mortgage Corporation | | | | | |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 1.150% | 4/27/2018 | 6,003,417 | 6,001,020 | (2,397) |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 1.240% | 3/29/2019 | 12,500,000 | 12,503,750 | 3,750 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1% | 1.000% | 3/8/2017 | 30,071,239 | 30,098,400 | 27,161 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2% | 2.000% | 8/25/2016 | 25,027,196 | 25,058,500 | 31,304 |
| Total Federal Home Loan Mortgage Corporation | | | 73,601,852 | 73,661,670 | 59,818 |
| Federal National Mortgage Association | | | | | |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION BOND ZERO | 0.000% | 10/9/2019 | 14,359,931 | 14,409,150 | 49,219 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 1.000% | 12/19/2017 | 2,002,756 | 2,008,940 | 6,184 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 1.200% | 11/22/2017 | 350,356 | 350,074 | (282) |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 1.200% | 12/30/2019 | 5,000,000 | 5,012,400 | 12,400 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 5.000% | 5/11/2017 | 10,364,822 | 10,378,600 | 13,778 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.125% | 7/20/2018 | 14,975,758 | 15,132,000 | 156,242 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 0.875% | 3/28/2018 | 9,983,111 | 10,034,400 | 51,289 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 0.875% | 8/28/2017 | 4,991,645 | 5,013,800 | 22,155 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 0.875% | 5/21/2018 | 9,946,971 | 10,039,600 | 92,629 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.750% | 9/12/2019 | 20,057,226 | 20,553,800 | 496,574 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.750% | 11/26/2019 | 20,015,415 | 20,562,600 | 547,185 |
| Total Federal National Mortgage Corporation | | | 112,047,991 | 113,495,364 | 1,447,373 |
| Total US Government Securities | | | 493,683,377 | 496,412,939 | 2,729,562 |
| Total Bond Proceeds Investment Pool #2 (Tax Exempt) (Part 1 of the Consolidated Investment Pool) | | | 676,032,098 | 678,774,300 | 2,742,202 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|---|---------------|---------------|--------------|--------------|------------------------|
| BOND PROCEEDS INVESTMENT POOL #1 (TAX EXEMPT): | | | | | |
| Certificates of Deposit | Various | Various | \$ 3,000,000 | \$ 3,000,000 | \$ - |
| Repurchase Agreements | Various | Various | 157,186,091 | 157,186,091 | - |
| Mutual Funds (LGIP Pool Participant) | Various | Various | 61,066,669 | 61,066,669 | - |
| Asset Backed Bonds: | | | | | |
| NCUA GUARANTEED NOTES OTHER SECURED LOANS FIXED | 2.350% | 6/12/2017 | 10,144,292 | 10,150,461 | 6,169 |
| Total Asset Backed Bonds | | | 10,144,292 | 10,150,461 | 6,169 |
| Municipal Bonds: | | | | | |
| ALAMOGORDO N MEX TAXABLE-SER A 24/DEC/2014 | 4.000% | 8/1/2016 | 45,112 | 45,123 | 11 |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 5.000% | 7/1/2026 | 1,500,000 | 1,500,195 | 195 |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 5.250% | 7/1/2016 | 665,000 | 665,086 | 86 |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 4.000% | 7/1/2016 | 100,000 | 100,010 | 10 |
| ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT | 3.000% | 7/1/2016 | 540,000 | 540,038 | 38 |
| ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV | 3.000% | 7/1/2016 | 450,000 | 450,032 | 32 |
| ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV | 3.000% | 7/1/2018 | 191,563 | 192,657 | 1,094 |
| ALBUQUERQUE N MEX GROSS RCPTS TAX REV | 0.550% | 7/1/2016 | 1,120,000 | 1,120,000 | - |
| ALBUQUERQUE N MEX GROSS RCPTS TAX REV | 1.050% | 7/1/2017 | 600,000 | 602,214 | 2,214 |
| ALBUQUERQUE N MEX MET ARROYO FLOOD CTL AUTH | 2.000% | 8/1/2017 | 304,036 | 304,737 | 701 |
| ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER | 3.000% | 8/1/2016 | 601,261 | 601,332 | 71 |
| ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER | 3.000% | 8/1/2016 | 721,444 | 721,598 | 154 |
| ARTESIA N MEX GROSS RCPTS TAX REV RFDG 15/SEP/2015 | 2.000% | 6/1/2017 | 1,512,062 | 1,513,374 | 1,312 |
| ARTESIA N MEX GROSS RCPTS TAX REV RFDG 15/SEP/2015 | 2.000% | 6/1/2018 | 264,926 | 266,633 | 1,707 |
| BEAUMONT TEX WTRWKS & SWR SYS REV SER A | 5.000% | 9/1/2024 | 2,060,629 | 2,060,767 | 138 |
| BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N | 2.000% | 8/1/2016 | 1,001,312 | 1,001,290 | (22) |
| GADSDEN N MEX INDPT SCH DIST NO 016 29/OCT/2014 | 2.000% | 8/15/2016 | 475,790 | 475,831 | 41 |
| GRANT CNTY N MEX RFDG 11/DEC/2014 01/SEP/2016 2% | 2.000% | 9/1/2016 | 315,742 | 315,680 | (62) |
| HOBBS N MEX MUN SCH DIST NO 16 26/MAY/2015 | 3.000% | 9/15/2016 | 391,983 | 391,888 | (95) |
| LAS CRUCES N MEX SCH DIST NO 002 RFDG-SER B | 2.000% | 8/1/2017 | 253,502 | 253,683 | 181 |
| NEW JERSEY ECONOMIC DEV AUTH RETIREMENT CMNTY REV | 5.250% | 11/15/2026 | 3,560,489 | 3,561,565 | 1,076 |
| NEW MEXICO ST SEVERANCE TAX TAXABLE-SER C | 2.000% | 7/1/2017 | 4,852,891 | 4,863,696 | 10,805 |
| ROSWELL N MEX INDPT SCH DIST SCH BLDG-SER A | 2.000% | 8/1/2017 | 252,956 | 253,518 | 562 |
| RUIDOSO N MEX GROSS RCPTS TAX REV RFDG & IMPT | 2.000% | 6/1/2018 | 157,638 | 158,630 | 992 |
| SAN JUAN CNTY N MEX GROSS RCPTS TAX REV RFDG-SER A | 4.000% | 6/15/2017 | 720,787 | 721,546 | 759 |
| SAN JUAN CNTY N MEX JR COLLEGE DIST 10/NOV/2015 | 2.000% | 8/15/2016 | 2,229,286 | 2,229,072 | (214) |
| SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2017 3% | 3.000% | 8/1/2017 | 383,795 | 384,285 | 490 |
| SANDOVAL CNTY N MEX INCENTIVE PAYMENT REV | 1.952% | 6/1/2018 | 100,926 | 101,499 | 573 |
| SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N | 5.000% | 8/1/2017 | 2,610,324 | 2,620,100 | 9,776 |
| TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8 | 1.500% | 9/1/2016 | 200,336 | 200,304 | (32) |
| UNIVERSITY N MEX UNIV REVS TAXABLE-RFDG & IMPT-SUB | 0.970% | 6/1/2017 | 55,000 | 55,134 | 134 |
| UNIVERSITY N MEX UNIV REVS TAXABLE-RFDG & IMPT-SUB | 1.220% | 6/1/2018 | 250,000 | 250,663 | 663 |
| UNIVERSITY N MEX UNIV REVS RFDG-TAXABLE-GNMA | 1.438% | 6/20/2018 | 1,007,351 | 1,009,070 | 1,719 |
| UNIVERSITY N MEX VALENCIA CNTY BRANCH CMNTY | 2.000% | 8/1/2016 | 620,762 | 620,775 | 13 |
| Total Municipal Bonds | | | 30,116,903 | 30,152,025 | 35,122 |
| US Government Securities: | | | | | |
| US Treasury Notes/Securities: | | | | | |
| UNITED STATES OF AMERICA NOTES FIXED .5% | 0.500% | 7/31/2017 | 4,978,190 | 4,998,450 | 20,260 |
| UNITED STATES OF AMERICA NOTES FIXED .625% | 0.625% | 12/15/2016 | 14,993,029 | 15,015,300 | 22,271 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Interest Rate | Maturity Date | Book Value | Market Value | Unrealized Gain (Loss) |
|---|---------------|---------------|--------------------|--------------------|------------------------|
| US Government Securities (Continued): | | | | | |
| Federal National Mortgage Association: | | | | | |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION BOND ZERO | 0.000% | 10/9/2019 | \$ 14,353,327 | \$ 14,409,150 | \$ 55,823 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 1.000% | 9/20/2017 | 5,010,299 | 5,023,550 | 13,251 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 0.750% | 3/14/2017 | 24,020,990 | 24,035,040 | 14,050 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 2.200% | 10/27/2017 | 1,020,370 | 1,020,210 | (160) |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 1.350% | 7/11/2018 | 1,312,652 | 1,315,808 | 3,156 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 1.220% | 10/25/2018 | 10,000,000 | 10,000,800 | 800 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE | 1.750% | 8/24/2018 | 5,041,272 | 5,010,250 | (31,022) |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 5.000% | 5/11/2017 | 15,547,713 | 15,567,900 | 20,187 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.375% | 11/15/2016 | 5,003,058 | 5,017,250 | 14,192 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.000% | 2/26/2019 | 9,982,469 | 10,049,200 | 66,731 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 0.875% | 5/21/2018 | 14,933,065 | 15,059,400 | 126,335 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED | 1.000% | 9/27/2017 | 4,992,767 | 5,022,900 | 30,133 |
| FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES ZERO | 0.000% | 6/1/2017 | 6,053,375 | 6,054,780 | 1,405 |
| Total Federal National Mortgage Association | | | 117,271,357 | 117,586,238 | 314,881 |
| Federal Farm Credit Bank: | | | | | |
| FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM | 0.650% | 7/10/2017 | 4,989,221 | 5,000,900 | 11,679 |
| FEDERAL FARM CREDIT BANK BOND FIXED .85% | 0.850% | 12/6/2017 | 5,009,930 | 5,015,600 | 5,670 |
| FEDERAL FARM CREDIT BANK BOND FIXED 1% 25/SEP/2017 | 1.000% | 9/25/2017 | 15,025,713 | 15,059,700 | 33,987 |
| FEDERAL FARM CREDIT BANK BOND FIXED 1.06% | 1.060% | 7/24/2018 | 1,003,777 | 1,006,850 | 3,073 |
| FEDERAL FARM CREDIT BANK BOND FIXED 1.1% | 1.100% | 6/28/2017 | 1,003,945 | 1,004,700 | 755 |
| FEDERAL FARM CREDIT BANK BOND FIXED 1.95% | 1.950% | 9/17/2018 | 2,045,656 | 2,051,000 | 5,344 |
| FEDERAL FARM CREDIT BANK CALLABLE BOND FIXED 1.65% | 1.650% | 7/29/2019 | 10,000,000 | 10,008,700 | 8,700 |
| Total Federal Farm Credit Bank | | | 39,078,242 | 39,147,450 | 69,208 |
| Federal Home Loan Bank: | | | | | |
| FEDERAL HOME LOAN BANKS BOND FIXED .625% | 0.625% | 10/26/2017 | 4,992,947 | 5,001,800 | 8,853 |
| FEDERAL HOME LOAN BANKS BOND FIXED .875% | 0.875% | 3/19/2018 | 12,511,167 | 12,544,000 | 32,833 |
| FEDERAL HOME LOAN BANKS BOND FIXED 1% 27/OCT/2017 | 1.000% | 10/27/2017 | 1,002,808 | 1,004,570 | 1,762 |
| FEDERAL HOME LOAN BANKS BOND FIXED 1.23% | 1.230% | 10/20/2017 | 2,011,502 | 2,015,900 | 4,398 |
| FEDERAL HOME LOAN BANKS BOND FIXED 1.25% | 1.250% | 6/8/2018 | 1,008,014 | 1,011,290 | 3,276 |
| FEDERAL HOME LOAN BANKS BOND FIXED 1.25% | 1.250% | 6/9/2017 | 2,010,270 | 2,013,180 | 2,910 |
| FEDERAL HOME LOAN BANKS BOND FIXED 1.375% | 1.375% | 3/9/2018 | 13,677,826 | 13,743,401 | 65,575 |
| FEDERAL HOME LOAN BANKS BOND FIXED 1.5% | 1.500% | 3/8/2019 | 10,098,541 | 10,181,600 | 83,059 |
| FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED 1.1% | 1.100% | 2/12/2018 | 7,486,798 | 7,486,807 | 9 |
| Total Home Loan Bank | | | 54,799,873 | 55,002,548 | 202,675 |
| Federal Home Loan Mortgage Corp: | | | | | |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 1.200% | 9/24/2018 | 1,257,092 | 1,263,513 | 6,421 |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 1.500% | 7/18/2019 | 2,014,967 | 2,037,800 | 22,833 |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 1.050% | 10/30/2018 | 2,509,894 | 2,511,825 | 1,931 |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 1.240% | 3/29/2019 | 12,500,000 | 12,503,750 | 3,750 |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 1.070% | 10/26/2018 | 7,219,325 | 7,223,682 | 4,357 |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM | 1.000% | 12/28/2018 | 5,000,000 | 5,009,550 | 9,550 |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES | 1.100% | 5/7/2018 | 1,000,000 | 1,000,170 | 170 |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES | 1.050% | 5/10/2018 | 5,000,000 | 5,004,900 | 4,900 |
| FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES | 1.000% | 8/10/2018 | 4,995,216 | 5,004,950 | 9,734 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .75% | 0.750% | 1/12/2018 | 23,943,985 | 24,041,040 | 97,055 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .75% | 0.750% | 7/14/2017 | 24,002,401 | 24,035,760 | 33,359 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 0.875% | 0.875% | 3/7/2018 | 19,982,364 | 20,036,800 | 54,436 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1% | 1.000% | 3/8/2017 | 10,016,718 | 10,032,800 | 16,082 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1% | 1.000% | 7/28/2017 | 5,011,140 | 5,021,400 | 10,260 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1% | 1.000% | 12/15/2017 | 10,041,775 | 10,053,200 | 11,425 |
| FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2% | 2.000% | 8/25/2016 | 20,025,781 | 20,046,800 | 21,019 |
| Total Federal Home Loan Mortgage Corp | | | 154,520,658 | 154,827,940 | 307,282 |
| Miscellaneous Government Securities: | | | | | |
| TENNESSEE VALLEY AUTHORITY BOND FIXED 6.25% | 6.250% | 12/15/2017 | 6,457,376 | 6,477,834 | 20,458 |
| UNITED STATES DEPARTMENT OF HOUSING AND URBAN | 5.450% | 8/1/2019 | 1,453,083 | 1,406,342 | (46,741) |
| Total Miscellaneous Government Securities | | | 7,910,459 | 7,884,176 | (26,283) |
| Total Governmental Bonds | | | 557,724,651 | 559,437,542 | 1,712,891 |
| Total Bond Proceeds Investment Pool #1 (Tax Exempt) (Part 2 of the Consolidated Investment Pool) | | | 819,238,606 | 820,992,788 | 1,754,182 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2016**

| Security Description | Book Value | Market Value | Unrealized Gain (Loss) |
|--|--------------------------------|--------------------------------|-----------------------------|
| Local Government Investment Pool (Short-term Investment Pool) | \$ 749,731,919 | \$ 749,835,069 | \$ 103,150 |
| General Fund Investment Pool (State Funds Investment Pool) | 1,749,589,273 | 1,762,340,687 | 12,751,414 |
| Bond Proceeds Taxable (Consolidated Investment Pool) | 676,032,098 | 678,774,300 | 2,742,202 |
| Bond Proceeds Tax Exempt (Consolidated Investment Pool) | 819,238,606 | 820,992,788 | 1,754,182 |
| Grand Total of All Funds | <u>\$ 3,994,591,896</u> | <u>\$ 4,011,942,844</u> | <u>\$ 17,350,948</u> |

Reconciliation to Financial Statements:

| | |
|---|-------------------------|
| Per Schedule of Investments | \$ 4,011,942,844 |
| Less: Interfund Investments in Local Government Investment Pool, General Fund Investment Pool* | (144,028) |
| Bond Proceeds Taxable* | (110,343,936) |
| Bond Proceeds Tax Exempt* | <u>(61,066,669)</u> |
| Total Interfund Investments | <u>(171,554,633)</u> |
| Total Cash and Investments, Statement of Fiduciary Net Position | <u>\$ 3,840,388,211</u> |

* Amounts are deducted from respective pools.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 8 - COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

| | Investment Trust Funds | | | Total |
|---|--|--|------------------------------------|-------------------------|
| | LGIP Short-term Investment Pool | Consolidated Investment Pool BPIP #1 and #2 | General Fund Investment Pool | |
| ASSETS | | | | |
| Cash and Investments: | | | | |
| Fiscal Agent Bank Account | \$ - | \$ - | \$ 42,002,853 | \$ 42,002,853 |
| Cash in Banks | 54,684,472 | - | 338,585,062 | 393,269,534 |
| Certificates of Deposit | - | 13,200,000 | 52,750,066 | 65,950,066 |
| U.S. Government Securities | 343,754,945 | 1,055,850,481 | 930,393,419 | 2,329,998,845 |
| Municipal Bonds | - | 41,317,015 | 16,283,324 | 57,600,339 |
| Interfund Investments | (171,554,633) | 171,410,605 | 144,028 | - |
| Repurchase Agreements | 235,000,000 | 197,688,065 | 375,311,935 | 808,000,000 |
| Miscellaneous Cash | - | - | 6,870,000 | 6,870,000 |
| Asset Backed Bonds | - | 20,300,922 | - | 20,300,922 |
| Discounted Notes | 116,395,652 | - | - | 116,395,652 |
| Total Cash and Investments | 578,280,436 | 1,499,767,088 | 1,762,340,687 | 3,840,388,211 |
| Due from Broker | - | 3,911 | - | 3,911 |
| Accrued Interest Receivable | 763,883 | 3,299,194 | 3,809,139 | 7,872,216 |
| TOTAL ASSETS | \$ 579,044,319 | \$ 1,503,070,193 | \$ 1,766,149,826 | \$ 3,848,264,338 |
| LIABILITIES | | | | |
| Due to Broker | \$ - | \$ 1,593,605 | \$ 37,702,000 | \$ 39,295,605 |
| Other Liabilities | - | - | 28,307 | 28,307 |
| TOTAL LIABILITIES | - | 1,593,605 | 37,730,307 | 39,323,912 |
| NET POSITION - HELD IN TRUST | 579,044,319 | 1,501,476,588 | 1,728,419,519 | 3,808,940,426 |
| TOTAL LIABILITIES AND NET POSITION | \$ 579,044,319 | \$ 1,503,070,193 | \$ 1,766,149,826 | \$ 3,848,264,338 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 9 - COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016**

| | Investment Trust Fund | | | Total |
|---|--|--|------------------------------------|-------------------------|
| | LGIP Short-term Investment Pool | Consolidated Investment Pool BPIP #1 and #2 | General Fund Investment Pool | |
| Additions: | | | | |
| Investment Income | \$ 2,150,467 | \$ 12,016,211 | \$ 23,940,722 | \$ 38,107,400 |
| Deposits | 8,660,784,342 | 1,019,799,700 | 43,685,804,944 | 53,366,388,986 |
| Deductions: | | | | |
| Expenses - Management Fees | (341,045) | - | - | (341,045) |
| Withdrawals | <u>(8,760,506,941)</u> | <u>(987,601,357)</u> | <u>(44,239,063,209)</u> | <u>(53,987,171,507)</u> |
| Subtotal of Change in Net Position | (97,913,177) | 44,214,554 | (529,317,543) | (583,016,166) |
| Net Position, Held in Trust for Pool Participants, June 30, 2015 | <u>676,957,496</u> | <u>1,457,262,034</u> | <u>2,257,737,062</u> | <u>4,391,956,592</u> |
| Net Position, Held in Trust for Pool Participants, June 30, 2016 | <u>\$ 579,044,319</u> | <u>\$ 1,501,476,588</u> | <u>\$ 1,728,419,519</u> | <u>\$ 3,808,940,426</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
JUNE 30, 2016**

| Location of Depository | Name of Institution | Deposits | FDIC | Collateral Required | Collateral Pledged | | Excess (Under) |
|---------------------------|---------------------------|-------------|-----------|------------------------|------------------------------------|--------------|-------------------|
| | | | | | Surety Bond Letter of Credit | Securities | |
| BANKS: | | | | | | | |
| Alamogordo | | | | | | | |
| (FHLB) | First National Bank | \$ 98,398 | \$ 98,398 | \$ - | \$ - | \$ 1,240,442 | \$ 1,240,442 |
| (FHLB) | Western Bank | 3,612,864 | 250,000 | 1,681,432 | - | 3,000,495 | 1,319,063 |
| Albuquerque | | | | | | | |
| (WFB) | Bank of America | 161,117 | 161,117 | - | - | 292,998 | 292,998 |
| (WFB) | Bank of the West | 314,267,861 | 250,000 | 157,008,931 | - | 164,798,348 | 7,789,418 |
| (WFB) | Compass Bank | 2,060,374 | 250,000 | 1,846,581 | 3,000,000 | - | 1,153,419 |
| (FHLB) | U.S. Bank N.A. | 4,271,275 | 250,000 | 2,010,638 | 40,000,000 | - | 37,989,363 |
| (WFB) | New Mexico Bank & Trust | 280,331 | 250,000 | 15,166 | - | 273,478 | 258,313 |
| (USB) | Wells Fargo Bank, N.A. | 100,919,301 | 250,000 | 50,334,651 | - | 128,340,991 | 78,006,341 |
| Artesia | | | | | | | |
| (FHLB) | First American Bank | 50,588 | 50,588 | - | - | - | - |
| Belen | | | | | | | |
| (USB) | My Bank | 350,331 | 250,000 | 50,166 | 250,000 | - | 199,835 |
| Carlsbad | | | | | | | |
| (FHLB) | Carlsbad National Bank | 600 | 600 | - | - | - | - |
| (FHLB) | Western Commerce Bank | 4,101,378 | 250,000 | 1,925,689 | - | 3,354,995 | 1,429,306 |
| Clayton | | | | | | | |
| (FHLB) | Farmers & Stockmens Bank | 10,032,975 | 250,000 | 4,891,488 | 5,100,000 | - | 208,513 |
| (FHLB) | First National Bank of NM | 3,204,984 | 250,000 | 1,477,492 | - | 2,814,790 | 1,337,298 |
| Clovis | | | | | | | |
| (TIB) | Bank of Clovis | 528,846 | 250,000 | 139,423 | - | 848,577 | 709,154 |
| | Citizens Bank | 11,848 | 11,848 | - | - | 250,000 | 250,000 |
| (FHLB) | Western Bank | 3,100,000 | 250,000 | 1,425,000 | - | 2,381,507 | 956,507 |
| Hobbs | | | | | | | |
| (TIB) | Lea County State Bank | 139,225 | 139,225 | - | - | - | - |
| Las Vegas | | | | | | | |
| (FHLB) | Southwest Capital Bank | 10,723,316 | 250,000 | 5,236,658 | - | 5,543,992 | 307,334 |
| (FHLB) | Community First Bank LV | 322,769 | 250,000 | 74,224 | - | 556,543 | 482,319 |
| SUBTOTAL | | 458,238,381 | 3,961,776 | 228,117,537 | 48,350,000 | 313,697,156 | 133,929,619 |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)
JUNE 30, 2016**

| Location of Depository | Name of Institution | Deposits | FDIC | Collateral Required | Collateral Pledged | | Excess (Under) |
|---------------------------|--------------------------|------------|------------|------------------------|------------------------------------|------------|-------------------|
| | | | | | Surety Bond Letter of Credit | Securities | |
| BANKS (Continued) | | | | | | | |
| Lordsburg | | | | | | | |
| (FHLB) | Western Bank | \$ 111,271 | \$ 111,271 | \$ - | \$ - | \$ - | \$ - |
| Los Alamos | | | | | | | |
| (FHLB) | Los Alamos National Bank | 39,182 | 39,182 | - | - | - | - |
| Raton | | | | | | | |
| (TIB) | International State Bank | 58,948 | 58,948 | - | - | 150,178 | 150,178 |
| Roswell | | | | | | | |
| (FHLB) | Bank of the Southwest | 658,959 | 250,000 | 204,480 | 300,000 | 142,551 | 238,072 |
| (TIB) | Valley Bank of Commerce | 90,835 | 90,835 | - | - | - | - |
| Santa Fe | | | | | | | |
| (FHLB) | Century Bank | 3,001,190 | 250,000 | 1,375,595 | - | 1,360,912 | (14,683) |
| (WFB) | First National Bank | 30,086,307 | 250,000 | 30,433,033 | - | 42,565,443 | 12,132,410 |
| Socorro | | | | | | | |
| (BA) | First State Bank | 71,577 | 71,577 | - | - | - | - |
| Taos | | | | | | | |
| (TIB) | Centinel Bank | 49,342 | 49,342 | - | - | - | - |
| SAVINGS AND LOANS: | | | | | | | |
| Alamogordo | | | | | | | |
| (FHLB) | BANK'34 | 2,001,987 | 250,000 | 1,787,027 | - | 2,054,780 | 267,753 |
| Roswell | | | | | | | |
| (FHLB) | Washington Federal | 30,905 | 30,905 | - | - | - | - |
| CREDIT UNION: | | | | | | | |
| Santa Fe | | | | | | | |
| | Guadalupe Credit Union | 250,000 | 250,000 | - | - | - | - |
| SUBTOTAL | | 36,450,503 | 1,702,060 | 33,800,134 | 300,000 | 46,273,864 | 12,773,730 |

Details of the collateral pledged are on file with the Office of the State Treasurer.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)
JUNE 30, 2016**

| Location of Depository | Name of Institution | Deposits | FDIC | Collateral Required | Collateral Pledged | | Excess (Under) |
|---|------------------------------|-----------------------|---------------------|------------------------|----------------------|-----------------------|-----------------------|
| | | | | | Letter of Credit | Securities | |
| ANCILLARY RECEIVERSHIP ACCOUNTS: | | | | | | | |
| Santa Fe | | | | | | | |
| (WFB) | Century Bank | \$ 1,607,556 | \$ 250,000 | \$ 678,778 | \$ - | \$ 1,275,991 | \$ 597,213 |
| FISCAL AGENT BANK: | | | | | | | |
| (USB) | Wells Fargo Bank N.A. | 39,068,549 | - | 19,534,275 | - | 64,317,921 | 44,783,647 |
| SUBTOTAL | | <u>40,676,105</u> | <u>250,000</u> | <u>20,213,053</u> | <u>-</u> | <u>65,593,912</u> | <u>45,380,860</u> |
| TOTAL | | <u>\$ 535,364,989</u> | <u>\$ 5,913,836</u> | <u>\$ 282,130,724</u> | <u>\$ 48,650,000</u> | <u>\$ 425,564,932</u> | <u>\$ 192,084,208</u> |
| Reconciliation to Note 6: | | | | | | | |
| Fiscal Agent Account | | \$ 39,068,549 | \$ - | \$ 19,534,275 | \$ - | \$ 64,317,921 | \$ 44,783,647 |
| Certificates of Deposit | | 65,950,066 | 1,809,687 | 48,485,126 | 5,000,000 | 48,964,751 | 5,479,625 |
| | | <u>105,018,615</u> | <u>1,809,687</u> | <u>68,019,401</u> | <u>5,000,000</u> | <u>113,282,672</u> | <u>50,263,272</u> |
| Add: | | | | | | | |
| Agency Deposits | | 428,001,830 | 3,854,149 | 213,052,824 | 38,650,000 | 305,756,239 | 131,353,415 |
| Ancillary Receivership Accounts | | 1,607,556 | 250,000 | 678,778 | - | 1,275,991 | 597,213 |
| | | <u>429,609,386</u> | <u>4,104,149</u> | <u>213,731,602</u> | <u>38,650,000</u> | <u>307,032,230</u> | <u>131,950,628</u> |
| | | <u>\$ 534,628,001</u> | <u>\$ 5,913,836</u> | <u>\$ 281,751,003</u> | <u>\$ 43,650,000</u> | <u>\$ 420,314,902</u> | <u>\$ 182,213,900</u> |
| Custodial Banks: | | | | | | | |
| (USB) | US Bank | | | | | | |
| (FHLB) | Fed. Home Loan Bank Dallas | | | | | | |
| (WFB) | Wells Fargo Bank | | | | | | |
| (TIB) | The Independent Bankers Bank | | | | | | |

Details of the collateral pledged are on file with the Office of the State Treasurer.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)
JUNE 30, 2016**

REPURCHASE AGREEMENTS:

| Name of Custodian | Location of Custodian | Repurchase Agreements per Financial Statement | Collateral Required | Collateral Pledged Mortgage Backed Securities (MBS) * | Issuer | CUSIP Number | Excess (Under) Collateralized |
|----------------------|--------------------------|--|------------------------|---|--------|-----------------|----------------------------------|
| JP Morgan Chase | New York, NY | \$ 205,332,000 | \$ 209,438,640 | \$ 212,043,570 | FNMA | 31418B6K7 | \$ 2,604,930.00 |
| JP Morgan Chase | New York, NY | 48,877,000 | 49,854,540 | 50,277,124 | FNMA | 3138ELCS0 | 422,584 |
| JP Morgan Chase | New York, NY | 168,791,000 | 172,166,820 | 174,363,472 | FNMA | 3138ETM29 | 2,196,652 |
| JP Morgan Chase | New York, NY | 185,000,000 | 188,700,000 | 188,678,690 | GOVT | 912828XE5 | (21,310) |
| JP Morgan Chase | New York, NY | 50,000,000 | 51,000,000 | 50,595,720 | GOVT | 912828XE5 | (404,280) |
| JP Morgan Chase | New York, NY | 50,000,000 | 51,000,000 | 50,880,584 | GOVT | 912828XE5 | (119,416) |
| JP Morgan Chase | New York, NY | 50,000,000 | 51,000,000 | 50,693,883 | GOVT | 912828XE5 | (306,117) |
| JP Morgan Chase | New York, NY | 50,000,000 | 51,000,000 | 50,980,467 | GOVT | 912828XE5 | (19,533) |
| Total | | <u>\$ 808,000,000</u> | <u>\$ 824,160,000</u> | <u>\$ 828,513,510</u> | | | <u>\$ 4,353,510</u> |

* Mortgaged Backed Securities is a type of asset backed security that is secured by a mortgage or collection of mortgages.

STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 11 - SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
GAMING SUSPENSE FUND
YEAR ENDED JUNE 30, 2016

| | <u>Balance</u> <u>June 30, 2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance,</u> <u>June 30, 2016</u> |
|----------------------------------|--|----------------------|----------------------|---|
| ASSETS | | | | |
| Investment in State General Fund | | | | |
| Investment Pool | \$ - | \$ 66,004,680 | \$ 66,004,680 | \$ - |
| Other Receivables | - | 15,203,938 | - | 15,203,938 |
| TOTAL ASSETS | <u>\$ -</u> | <u>\$ 81,208,618</u> | <u>\$ 66,004,680</u> | <u>\$ 15,203,938</u> |
| LIABILITIES | | | | |
| Due to State General Fund | \$ - | \$ 81,208,618 | \$ 66,004,680 | \$ 15,203,938 |
| TOTAL LIABILITIES | <u>\$ -</u> | <u>\$ 81,208,618</u> | <u>\$ 66,004,680</u> | <u>\$ 15,203,938</u> |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 SCHEDULE 12 - SCHEDULE OF VENDOR INFORMATION FOR PURCHASES
 EXCEEDING \$60,000 (EXCLUDING GRT) - UNAUDITED
 YEAR ENDED JUNE 30, 2016**

| RFB#/RFP# | Type of Procurement | Awarded Vendor | \$ Amount of Awarded Contract | \$ Amount of Amended Contract | Name and Physical Address, Per the Procurement Documentation, of ALL Vendor(s) That Responded | In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition) | Was the Vendor In-State and Chose Veteran's Preference (Y or N) - For Federal Funds, Answer N/A | Brief Description of the Scope of Work |
|---------------------------------|---------------------|----------------|-------------------------------|-------------------------------|---|--|---|--|
| No purchases exceeding \$60,000 | | | | | | | | |

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SCHEDULE 13 - SCHEDULE OF ARBITRAGE ON TAX EXEMPT BONDS - UNAUDITED
YEAR ENDED JUNE 30, 2016**

| | First Computation Date | First Payment Due to IRS | First Computation of Arbitrage Completed | Last / Next Payment Due to IRS |
|--|------------------------------|-----------------------------|---|--------------------------------------|
| General Obligation Bonds Series 2007 | 3/1/2012 | 4/30/2012 | X | 3/1/2017 |
| General Obligation Bonds Series 2009 | 5/28/2014 | 7/28/2014 | X | 3/1/2019 |
| General Obligation Bonds Series 2011 | 5/26/2016 | 7/25/2016 | X | 3/1/2021 |
| General Obligation Bonds Series 2013 | 4/23/2018 | 6/22/2018 | X | 3/1/2023 |
| General Obligation Bonds Series 2015 | 3/25/2020 | 5/26/2020 | X | 3/1/2025 |
| Severance Tax Bonds Series 2009A | 7/30/2014 | 9/29/2014 | X | 7/1/2019 |
| Severance Tax Bonds Series 2010A | 3/24/2015 | 5/26/2015 | X | 3/24/2020 |
| Supplemental Severance Tax Bonds Series 2010B | 3/24/2015 | 5/26/2015 | X | 3/24/2020 |
| Severance Tax Bonds Refunding Series 2010D | 12/8/2015 | 2/8/2016 | X | 7/1/2017 |
| Severance Tax Bonds Series 2011A-1 | 12/6/2016 | 2/6/2017 | X | 7/1/2021 |
| Severance Tax Bonds Refunding Series 2011A-2 | 12/6/2016 | 2/6/2017 | X | 7/1/2021 |
| Severance Tax Bonds Series 2012A | 6/21/2017 | 8/21/2017 | X | 6/21/2022 |
| Severance Tax Bonds Series 2013A | 7/23/2018 | 9/24/2018 | X | 7/1/2023 |
| Severance Tax Bonds Series 2014A | 6/24/2019 | 8/23/2019 | X | 6/24/2024 |



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund, fiduciary fund and the combining and individual funds presented as supplementary information of the State of New Mexico, Office of the State Treasurer (the Office), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 1, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged

Honorable Susana Martinez, Governor
State Board of Finance
Honorable Tim Eichenberg, State Treasurer
Honorable Timothy Keller, State Auditor
State of New Mexico Office of the State Treasurer

with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, of which are provided in the summary of audit findings and responses as 2016-001 and 2016-002.

The Office's Response to Findings

The Office's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. The Office's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 1, 2016

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2016**

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 2016-001 Cash Confirmation and Investment Reconciliation Process (Compliance and Other Control Deficiency Matters)

Condition: The 2016 New Mexico State Auditor Rule, 2.2.2 NMAC Section M (3)(f) states that auditors of state agencies are required to obtain a cash confirmation from the New Mexico State Treasurer's Office (STO). During our review to document the compliance and process of this requirement we noted the following; only one person within STO, at this time, has the knowledge to perform the confirmation process and the cash confirmation process only occurs at year end. Additionally we noted that the same individual performs the monthly investment reconciliation process, and prepares the audit schedules at year end. During our audit we were made aware that this person is retiring from the State.

Criteria: Per the Committee of Sponsoring Organization (COSO) report which defines internal control for organizations, under the control environment, management should have employees that are competent to perform functions that have a direct alignment with their financial reporting objectives. The duties noted above are imperative to the financial reporting for STO both internally and externally.

Cause: STO has limited resources and there are already time constraints on employees that would have the knowledge to perform the functions noted above, which makes cross training difficult.

Effect: Possible delay in performing these critical tasks when, or if the current employee retires, which could result in a delay of financial reporting and the cash confirmation requirement as outlined in the New Mexico State Auditor Rule.

Recommendation: We recommend that Management hire another competent employee or start training a current employee as a back up to perform these functions. In addition we recommend that the cash confirmation process be performed on a monthly or quarterly basis.

State Treasurer's Office Response: The State Treasurer's Office understands this finding. FY16 was the first year that the Cash Confirmation process had been required so procedures were developed and implemented. Now additional staff can be cross-trained or hired to learn these newly developed procedures and to provide redundancy. Budgetary constraints could create challenges in achieving compliance.

- Responsible party: Leo Marquez, Chief Financial Officer
- Date to implement corrective action: June 30, 2017

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2016**

SECTION I – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2016-002 Debt Activity - Transfer (Compliance and Other Control Deficiency Matters)

Condition: CLA became aware of a transfer that was made in error from the STO Investment Trust Bank account to the New Mexico State Board of Finance's bank account. The transfer was for the Good Faith Deposit, of \$6,655,700, for the Severance Tax Bond Series 2016A and 2016C bonds issued during fiscal year 2016. The Good Faith Deposit had been paid but was then transferred by the Treasurer's Office to the State Board of finance.

Criteria: Per Sections 8-6-1 through 8-6-7 NMSA 1978 as amended states the State Treasurer shall keep a true and comprehensive account of all monies received and disbursed. And per the Committee of Sponsoring Organization (COSO) report which defines internal control for organizations, under control activities and monitoring components organizations should establish controls over relevant processes and then monitor the progress.

Cause: Per review of the statement sent to STO to make the transfer to the State Board of Finance the amount requested noted the gross amount. STO has an internal review process prior to amounts being transferred to the State Board of Finance but they do not confirm with the State Board of Finance that the amounts they are transferring are accurate.

Effect: There was no effect on the cash at the State-wide level, however the State Board of Finance's bank account at year end was overstated by \$6,655,700. In addition there was a reconciling item for the state's cash reconciliation process performed by the Department of Finance and Administration.

Recommendation: STO should update their current process over transfers related to the debt activity, to ensure their accuracy, by adding a step to verify with the State Board of Finance the amounts being transferred are correct. These amounts are large and can be more complex in nature.

State Treasurer's Office Response: The State Treasurer's Office concurs with this finding. STO's corrective action plan includes increasing communication as needed with Board of Finance and their contractors to ensure:

1. Transfer amounts are correct.
 2. Transactions comply with the closing memo documentation.
- Responsible party: Stephen Vigil, Investment Accounting Bureau Chief
 - Date to implement corrective action: December 31, 2016

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2015-001 Accounts Payable (Significant Deficiency) Resolved

Condition: During our search for unrecorded liabilities, we encountered a payment to the Department of Information and Technology (DOIT) in the amount of \$11.5K that related to the Public Education Retirement Association (PERA) rather than the New Mexico State Treasurer's Office (the Office). The amount was approved for payment by the CFO of the Office.

Finding 2007-04 Reporting of Agency Interest in the State General Fund Investment Pool (Material Weakness) – Resolved

Condition: On July 1, 2006, the State of New Mexico implemented the SHARE accounting system requiring changes to business processes at the State Treasurer's Office, DFA and other State Agencies. The State Treasurer's Office was not allowed to maintain the TRACS subsidiary system that provided for reporting of each State Agency's interest in the State General Fund Investment Pool (SGFIP) when the transition to the SHARE system occurred due to lack of funding for redundant systems.

In June 2012, the State Controller of the Financial Control Division at the DFA commissioned a diagnostic report with the purpose of assessing the current state of cash reconciliation and determining recommendations for remediating the system configuration and business process issues pertaining to the book to bank processes. Some key observations revealed by the diagnostic report relating to the Treasury application are summarized below:

1. Complete functionality available in the SHARE Treasury application was not implemented. The premise of the reconciliation functionality in PeopleSoft is that all system transactions have an accounting entry on the GL and that each bank transaction reconciles to the system transaction. This is not the case for the current implementation of SHARE.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
EXIT CONFERENCE
June 30, 2016**

An exit conference was held with the State Treasurer's Office on November 28, 2016. The conference was held at the State Treasurer's offices in Santa Fe, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

**STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER**

Tim Eichenberg, State Treasurer
Sam Collins, Deputy State Treasurer
Leo Marquez, Chief Financial Officer, Budget and Finance Division Director
Christina Baca, Budget and Finance Bureau Chief
Steve Vigil, Investment Accounting Bureau Chief

CLIFTONLARSONALLEN LLP

Georgie Ortiz, CPA, CGFM, Principal
Christopher W. Gregory, CPA, Senior Associate

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor and were reviewed and approved by the State Treasurer's Office. However, the financial statements remain the responsibility of management, as addressed in the Independent Auditors' Report. Management reviewed and approved the financial statements.

APPENDIX C

FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER

August 8, 2017

State Board of Finance
State of New Mexico
Bataan Memorial Building, Suite 181
Santa Fe, NM 87501

Sherman & Howard L.L.C.
500 Marquette Ave. NW #1203
Albuquerque, NM 87102-5340

Rodey, Dickason, Sloan, Akin & Robb, P.A.
201 3rd St. NW, Suite 2200
Albuquerque, NM 87102

Kutak Rock LLP
1801 California Street, Suite 3000
Denver, CO 80202-2626

Re: \$69,470,000, The State of New Mexico Severance Tax Bonds, Series 2017A (the "Bonds")

Ladies and Gentlemen:

This letter will serve as our certificate of litigation affecting New Mexico Severance Taxes.

In 2009, the United States District Court for the District of New Mexico held that the State of New Mexico may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal lands of the Ute Mountain Ute Tribe located with the state. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009). The Tenth Circuit Court of Appeals reversed the district court's decision and held that federal law does not preempt the State's assertion of jurisdiction to tax non-Indian operators' severance of oil and gas on the Ute Mountain Reservation because, among other things, the State has asserted sufficient justification for imposing the taxes. *Ute Mountain Ute Tribe v. Rodriguez*, 660 F.3d 1177 (10th Cir. 2011). The Ute Mountain Ute Tribe petitioned for an en banc review, which the court denied on September 12, 2011. The United States Supreme Court denied the Ute Mountain Ute Tribe's petition for a writ of certiorari on February 21, 2012. *Ute Mountain Ute Tribe v. Padilla*, 132 S.Ct. 1557 (2012).

In addition, at any given time, a number of protests/refund claims are pending at the administrative level. Since June 15, 2001, payments on severance tax assessments issued by the Taxation and Revenue Department (TRD), including any on undervaluation assessments made after that date, typically are held in a suspense fund until the TRD Secretary determines that there is no substantial risk of protest or other litigation. See NMSA 1978, § 7-1-6.20(B) (2001).

While we are unable to predict with reasonable certainty the outcome of pending litigation and administrative proceedings, they would not, in our opinion, reasonably be expected to have a material effect on the owner of the Bonds. This office is not aware of any other pending or threatened litigation that would affect the severance tax of the state or the authority of the state to issue the Bonds.

Sincerely,

Sally Malavé
Assistant Attorney General

APPENDIX D

FORM OF OPINION OF CO-BOND COUNSEL

August 8, 2017

State Board of Finance
State of New Mexico

\$69,470,000
State of New Mexico
Severance Tax Bonds
Series 2017A

Ladies and Gentlemen:

We have acted as co-bond counsel to the New Mexico State Board of Finance (the “Board”) in connection with the issuance and sale of the State of New Mexico, \$69,470,000 Severance Tax Bonds, Series 2017A (the “Bonds”).

In such capacity, we have examined the transcript of proceedings (the “Transcript”) relating to the Bonds and have also examined the provisions of the Constitution and laws of the State of New Mexico (the “State”) pursuant to which the Bonds are issued, the resolutions authorizing the issuance and sale of the Bonds adopted by the Board on June 20, 2017 and July 18, 2017 (collectively, the “Bond Legislation”), and the Tax Certificate of the State relating to the Bonds (the “Tax Certificate”). We have also made such further inquiries and investigations and have examined such law of the United States of America and such further documents and matters as we have considered necessary in rendering this opinion letter. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them by the Bond Legislation.

Regarding questions of fact material to our opinions, we have relied upon the Board’s certified proceedings relating to the Bonds and upon other representations and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. This opinion letter is issued as of the date hereof and we assume no obligation to revise or supplement this opinion letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. Our engagement with respect to the Bonds has concluded with their issuance.

Furthermore, we have assumed the continued accuracy of the representations and the continuing compliance with the covenants and agreements contained in the Bond Legislation and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal or State income tax purposes. The rights and obligations of the State and the Board pursuant to the Bonds, the Bond Legislation and the Tax Certificate and their enforceability may be limited by applicable bankruptcy, insolvency, reorganization, receivership, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors’ rights generally, by the application of equitable principles, whether considered at law or in equity, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against the State and the Board. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein. Finally, we undertake no responsibility

for the accuracy, completeness or fairness of the Official Statement or any other statements made in connection with any offer or sale of the Bonds and express herein no opinion relating thereto, and we express no opinion upon any State or federal tax consequences arising from the receipt or accrual of interest on or the ownership or disposition of the Bonds, except those specifically addressed herein.

Based on our examination, we are of the opinion that, under the law existing on the date hereof:

1. The Bonds constitute valid and binding special limited obligations of the State in accordance with the terms and provisions thereof.

2. The Bonds are payable solely from, and such payment is secured by a pledge (but not an exclusive pledge) of, the money on deposit in the Severance Tax Bonding Fund, consisting of the net receipts from taxes levied upon certain natural resource products severed and saved from the soil of the State and such other moneys as the State Legislature may, in its sole discretion, from time to time determine to deposit in the Severance Tax Bonding Fund, certain interest earnings on moneys on deposit in the bond accounts and such proceeds of the Bonds as may from time to time be deposited in the Severance Tax Bonding Fund as a result of statutorily required reversions or otherwise, all in accordance with the Act, on a parity with any Senior Obligations outstanding or hereafter issued and superior to any Supplemental Obligations outstanding or hereafter issued. Except as described in this paragraph, we express no opinion regarding the priority of the pledge or lien of the Bonds on the moneys on deposit in the Severance Tax Bonding Fund.

3. The owners of the Bonds have no right to have ad valorem taxes levied by the State for the payment of principal of or interest on the Bonds and the Bonds do not represent or constitute a debt or pledge of, or a charge against, the general credit of the State.

4. The Bond Legislation constitutes a valid and binding obligation of the Board and is enforceable in accordance with its terms.

5. Interest on the Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Tax Code"), and interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code, except that such interest is required to be included in calculating the adjusted current earnings adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations.

6. Interest on the Bonds is exempt from income taxes imposed directly thereon by the State under State income tax laws.

We are opining only upon those matters set forth herein, and we are not passing upon the accuracy, adequacy, or completeness of the Official Statement or any statement made in connection with any offer or sale of the Bonds. This opinion letter is issued as of the date hereof and we assume no obligation to revise or supplement this opinion letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. No attorney-client relationship has existed or exists between us and anyone other than the Board in connection with the issuance of the Bonds by virtue of this opinion letter. This opinion letter is delivered to you solely for your information and benefit in connection with the initial offering and public sale of the Bonds and may not be relied upon by you for any other purpose or relied upon by any other party without the prior written consent of this firm.

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Disclosure Undertaking”) is executed and delivered by the State Board of Finance (“Board”) of the State of New Mexico (the “State”) on behalf of the State in connection with the issuance by the State of \$69,470,000 State of New Mexico Severance Tax Bonds, Series 2017A (the “Bonds”). The Bonds are being issued pursuant to a Bond Resolution adopted by the Board on June 20, 2017 (collectively, the “Resolution”).

BACKGROUND

1. The Bonds are being issued to finance capital projects approved by the State Legislature and certified by State agencies.

2. In order to allow the underwriter of the Bonds to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12), to the date hereof, the State is required to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Bonds.

3. This Disclosure Undertaking is intended to satisfy the requirements of said Rule 15c2-12, as in effect on the date hereof.

STATE COVENANTS AND AGREEMENTS

Section 1. Definitions.

(a) “Annual Financial Information” means the financial information or operating data with respect to the State, delivered at least annually pursuant to Section 2(a) and 2(b) hereof, of the type set forth in the sections of the final Official Statement identified on Exhibit A hereto. Annual Financial Information includes Audited Financial Statements.

(b) “Audited Financial Statements” means the annual State of New Mexico Office of the State Treasurer Financial Statements, prepared in accordance with generally accepted accounting principles, as in effect from time to time, audited by a firm of certified public accountants.

(c) “Event Information” means the information delivered pursuant to Section 2(d) hereof.

(d) “MSRB” means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1300 I Street, Suite 1000, Washington, DC, 20005, phone (202) 838-1500, fax (202) 898-1500.

(e) “National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following is the only National Repository:

Electronic Municipal Market Access (“EMMA”)
c/o Municipal Securities Rulemaking Board
1300 I Street, Suite 1000
Washington, DC 20005
www.emma.msrb.com
Phone: (202) 838-1500

(f) “Official Statement” means the Official Statement dated July 18, 2017 delivered in connection with the original issue and sale of the Bonds.

(g) “Repository” means (i) EMMA and (ii) any SID.

(h) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12), as the same may be amended.

(i) “SEC” means the Securities and Exchange Commission.

(j) “SID” means any State Information Depository operated or designated by the State that receives information from all issuers within the State. As of the date of this Disclosure Undertaking, no SID exists for the State.

Section 2. Provision of Annual Information and Reporting of Event Information.

(a) Commencing with the Fiscal Year ending June 30, 2017 and annually while the Bonds remain outstanding, the State agrees to provide or cause to be provided the Annual Financial Information to each Repository annually.

(b) Such Annual Financial Information shall be provided not later than 210 days after the end of each fiscal year for the State (i.e., each June 30). If the Audited Financial Statements are not available by the time the other Annual Financial Information must be provided, unaudited financial statements shall be provided as part of the Annual Financial Information. If not provided as a part of the Annual Financial Information, the Audited Financial Statements will be provided when available.

(c) The State may provide Annual Financial Information by specific reference to other documents, including information reports and official statements relating to other debt issues of the State, which have been submitted to each Repository; provided, however, that if the document so referenced is a final official statement within the meaning of the Rule, such final official statement must also be available from the MSRB.

(d) At any time the Bonds are outstanding, the State shall provide, in a timely manner, not in excess of ten business days, to the MSRB and any SID notice of any of the following events with respect to the Bonds (provided that any event under clauses (ii), (vii), (viii), (x), (xiv) and (xv) will be provided only if material):

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults;
- iii. Unscheduled draws on debt service reserves reflecting financial difficulties;
- iv. Unscheduled draws on credit enhancements reflecting financial difficulties;

- v. Substitution of credit or liquidity providers, or their failure to perform;
- vi. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
- vii. Modifications to rights of Bondholders;
- viii. Bond calls, other than mandatory sinking fund redemption;
- ix. Defeasances;
- x. Release, substitution or sale of any property securing repayment of the securities;
- xi. Rating changes;
- xii. Tenders offers;
- xiii. Bankruptcy, insolvency, receivership or similar proceedings;
- xiv. Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated person or their termination; and
- xv. Appointment of a successor or additional trustee or the change of name of a trustee.

(e) At any time the Bonds are outstanding, the State shall provide, in a timely manner, to the MSRB and any SID notice of any failure of the State to timely provide the Annual Financial Information as specified in Sections 2(a) and 2(b) hereof.

Section 3. Method of Transmission. Subject to technical and economic feasibility, the State shall employ such methods of electronic or physical information transmission as is requested or recommended by the Repositories or the MSRB unless otherwise required by law.

Section 4. Enforcement. The obligations of the State hereunder shall be for the benefit of the owners (including the beneficial owners) of the Bonds. The owner or beneficial owner of any Bonds is

authorized to take action to seek specific performance by court order to compel the State to comply with its obligations under this Disclosure Undertaking, which action shall be the exclusive remedy available to it or any other owners or beneficial owners of the Bonds. Any such action shall be brought only in a State court of competent jurisdiction in Santa Fe County, New Mexico. Breach of the obligations of the State hereunder shall not constitute an event of default under the Resolution and none of the rights and remedies provided by the Resolution shall be available to the owners (including the beneficial owners) of the Bonds.

Section 5. Additional Information. Nothing in the Disclosure Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other annual information or notice of occurrence of an event which is not Event Information, in addition to that which is required by this Disclosure Undertaking; provided that the State shall not be required to do so. If the State chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Undertaking, the State shall have no obligation under this Disclosure Undertaking to update such information or include it in any future annual filing or Event Information filing.

Section 6. Term. This Disclosure Undertaking shall be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of (i) the date all principal and interest on the Bonds shall have been paid or legally defeased pursuant to the terms of the Resolution; (ii) the date that the State shall no longer constitute an “obligated person” with respect to the Bonds within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this Disclosure Undertaking are determined to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

Section 7. Amendments and Waivers. Notwithstanding any other provision of this Disclosure Undertaking, the State may amend this Disclosure Undertaking from time to time, and any provision of this Disclosure Undertaking may be waived, without the consent of the owners or beneficial owners of the Bonds upon the State's receipt of an opinion of counsel experienced in federal securities laws to the effect that such amendment or waiver will not adversely affect compliance with the Rule. Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information and Audited Financial Statements for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The State shall provide notice of any such amendment or waiver to each Repository.

Section 8. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the State and the owners (including beneficial owners) from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 9. Governing Law. This Disclosure Undertaking shall be governed by the laws of the State.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Undertaking as of _____, 2017.

STATE BOARD OF FINANCE

By _____
President

EXHIBIT A

Portions of the Official Statement
Containing the Type of Information
to be Included as Annual Financial Information

1. SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS
 - Investments
 - Issuance of Severance Tax Bonds
 - State Capital Program
 - Outstanding and Additional Senior Severance Tax Bonds
 - Outstanding and Additional Supplemental Severance Tax Bonds
 - Table entitled “Severance Tax Bonding Fund Receipts, Disbursements and Transfers”
 - Table entitled “State of New Mexico Severance Tax Bonds - Projected Cash Receipts, Debt Service Requirements and Coverage” Fiscal Year and Scheduled Debt Service columns
2. SEVERANCE TAX REVENUE
 - All
3. NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE
 - Natural Gas Production (Data for chart entitled: “Natural Gas Subject to Taxation: Production, Revenues and Average Price”)
 - Severance Taxes on Natural Gas
 - All
4. OIL PRODUCTION AND SEVERANCE TAX REVENUE
 - Severance Taxes on Oil
 - All
5. COAL PRODUCTION AND SEVERANCE TAX REVENUE
 - Severance Tax Revenue on Coal
 - All
6. OTHER MINERAL PRODUCTION AND SEVERANCE TAXES
 - Any statements therein relating to the severance tax collected and tax rates
7. OTHER TAXES OF NATURAL RESOURCES NOT PLEDGED
 - All
8. APPENDIX A - GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO
 - All
9. STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER FINANCIAL STATEMENTS, (Audited)